

# Industrialisation of Developing Countries

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## INTRODUCTION

The record of history demonstrates that to eliminate a country's techno-economic backwardness it is necessary first of all to diversify the pattern of the economy by equipping it with the latest machinery and utilising modern technologies and techniques of production. Industrialisation is the key to restructuring the economy.

In recent years, especially as a result of the work of the UN Committee for Industrial Development, the view has increasingly spread among economists that the development of manufacturing is the hub of industrialisation. Specification of the term "industrialisation" was a matter specially taken up by this committee at its third session in 1963. Quite diverse proposals were submitted and after long debates the following definition was accepted: "Industrialisation is a process of economic development in which a growing part of the national resources is mobilised to develop a technically up-to-date, diversified, domestic economic structure characterised by a dynamic manufacturing sector having and producing means of production and consumer goods and capable of assuring a high rate of growth for the economy as a whole and of achieving economic and social progress."<sup>1</sup> The Committee also decided to regard this definition as an approximation to be used for working purposes only.

Defining the concept of "industrialisation" is not easy, above all because it is a multifaceted process. Its purposes are by far not the same in different countries and in different

<sup>1</sup> UN. Committee for Industrial Development Report of the Third Session (18-31 May, 1963), E/3781, E/C. 5/37, New York, 1963, p. 23.

socio-economic and historical conditions. The methods, forms, sequence and stages of this process are also highly diverse. It is not surprising that attempts to incorporate all these forms in one definition often lead to involved and cumbersome formulations.

Definition of the essence of industrialisation may be greatly facilitated by a study of the history of this process in different countries. In Britain which was the first to undertake industrialisation, the light industry, above all the textile, was first developed. As capital was accumulated and a demand for equipment grew, other industries began to arise, including heavy industry and engineering. It is Britain that produced the classical example of capitalism's industrial development which is identified with the initial growth of light industry and the subsequent building up of heavy industry. What also distinguishes Britain's industrialisation is that there agriculture was reduced to a minimum. Britain which then possessed a huge colonial empire turned in effect into an industrial city in relation to its colonial village.

The countries which later embarked on the path of industrialisation were able to utilise the know-how and scientific and technological discoveries of their predecessors (first of Britain and then also of other countries). Germany and the United States were able to shorten somewhat the industrialisation process by drawing on Britain's achievements. This circumstance left its mark on the pattern of their economy, especially at the initial stages of industrialisation, when they were only trying to overtake the most advanced industrial state. In particular, they rather swiftly, after a relatively brief period of the development of light industry (and thereby also of the market of the respective equipment), undertook to build up the heavy industries most advanced for those days, which largely predetermined the acceleration of their economic growth rates and advance to the ranks of the biggest world powers. The experience of the United States and Germany somewhat extended the notion about the proper sequence in the development of different sectors in the course of industrialisation; greater emphasis was laid on the development of heavy, especially large-scale industry and the building up of a national engineering industry began to play an increasing role.

In the USSR, industrialisation proceeded under entirely different conditions. The fundamentally different socio-

economic nature of the socialist state, which determined the essence of this process, its methods, sources and forms, was supplemented by the specific historical situation in which the first socialist country in the world developed. At the beginning of the industrialisation period the Soviet Union already had relatively developed branches of both light and heavy industry, some know-how and personnel (although many industrial enterprises had been destroyed and a considerable proportion of the technical and managerial personnel had been killed in the course of the imperialist war, the revolution and the Civil War or emigrated). Industrialisation, however, was effected in a socialist state that was surrounded by hostile capitalist countries. These conditions predetermined the aims, sequence and pace of industrialisation. The USSR was faced with an herculean historic task—to put an end in the shortest period to the country's techno-economic backwardness, with almost no economic and technical assistance coming from the outside and the constant threat of armed attack, and to develop as an independent economic entity relying chiefly on the home market.

In face of the military threat of imperialism it was necessary swiftly to end the country's techno-economic backwardness and thereby ensure its defensive capability. The Soviet Union had to cope simultaneously with the task of transforming the backward social relations typical of a petty-bourgeois country.

The experience of Soviet industrialisation with emphasis on the priority development of heavy industry, especially engineering, and, on this basis, reconstruction of all the other sectors of the economy, introduced much that is new in understanding the process of industrialisation, which in Soviet economic literature was defined as being basically the building up and development of large-scale machine-based industry and above all of heavy industry, ensuring a radical reconstruction and growth of the entire national economy on the basis of the latest machinery.

This policy has fully justified itself in the Soviet Union. "The Party's policy of ensuring the priority development of socialist industry, and principally its basis, heavy industry, has turned our country into a mighty power," it was pointed out in the Report of the CPSU Central Committee to the 24th Party Congress. "It will be no exaggeration to say that only the consistent effectuation of this policy has

enabled us to safeguard the gains of the socialist revolution, to end the centuries-long backwardness, to achieve gigantic economic, social and cultural progress."<sup>1</sup>

The experience of history thus indicates that it would be incorrect to reduce the concept of industrialisation merely to the development of some sectors of the national economy. The essence of industrialisation consists in the extensive introduction of the latest scientific and technological achievements in production, in the comprehensive technical re-equipment of the national economy. In broad terms this is a process extending over a long period and involving the main sectors of the national economy. In a narrower sense industrialisation necessarily presupposes emphasis on the links of the national economy, whose priority development or modernisation may in the prevailing conditions ensure the most effective application by a country of modern scientific and technological achievements and the biggest rise in labour productivity. Ultimately it is the key manufacturing industries that hold the central place in the industrialisation process. But, depending on the concrete historical conditions and level of a country's economic development, specific features of its international economic relations and many other factors, industrialisation (in the narrow sense) may start from different industries.

The wide introduction of highly efficient means of production in the national economy is a major feature of industrialisation. The record of history shows that at a definite stage individual countries were able to acquire a certain and even substantial part of the means of production abroad through foreign trade or the activity of foreign companies. But such a way cannot serve as a long-term basis either for independent economic development or key large-scale re-equipment of the national economy as a whole unless a country builds and extends its own basis for industrialisation, the rates and sequence of development of sectors being determined by many factors of an internal and international order.

Industrially developed capitalist states have introduced, and are introducing, scientific and technological achievements as they become available, and it is this that largely

dictates the sequence in the development of new sectors and the pattern of their economies. Countries which embarked later on the path of capitalist industrialisation were able, especially at the initial stages, to utilise equipment developed by others. They faced to a lesser degree the problem of renewing old fixed capital and were able to concentrate in their research effort on the new, most promising fields. That is why at a definite stage countries which took to the path of industrialisation later than others were able to build up more swiftly a developed industry fitted out with latest equipment. It is this that represents one of the major material prerequisites for uneven economic development under capitalism.

It would be an oversimplification, however, to hold that an economically backward country always has a certain advantage, because allegedly it is able to draw on the experience and achievements of others without any exploration or mistakes. Such possibilities exist only within definite, comparatively narrow limits. If the economic gap is too wide, the backward country faces many new problems.

International economic relations and the contemporary world economy are exerting an ever greater impact on the trend and nature of industrialisation. Orientation on the building up of a more or less closed economy was an important distinction at the initial stages of industrialisation of the biggest capitalist countries and the USSR. But the subsequent development of the productive forces, and the expanding scale of production, especially in the context of the present scientific and technological revolution, compel even the biggest countries to look for the most rational forms and trends of industrial specialisation and co-operation with other countries (a case in point is the establishment of the European Common Market). Smaller countries (for instance, Belgium, the Netherlands, Sweden, Austria and others) already at the early stages of industrialisation paid much attention to more rational forms and trends of the international specialisation of their industry. Some of them staked on sectoral and others on technological specialisation; some oriented themselves on the production of a limited number of high-quality goods, others, on the cheap price of their wares, and so on.

The second half of the 20th century witnesses the effort to accelerate industrial development on the part of many

<sup>1</sup> 24th Congress of the CPSU, Moscow, 1971, pp. 55-56.

Asian and African countries which won political independence, and also of Latin America. This process is under way in a world in which there are two different socio-economic systems and a scientific and technological revolution is spreading.

The specific conditions of our time inevitably leave a strong imprint on the entire course of industrialisation in developing countries. They, naturally, do not have to start from scratch and traverse the whole road which was covered by developed countries in the past. This can give them a definite gain in time and resources. It is not merely a matter of saving on the colossal amount of research and training needed to develop practical skills. The progress of science and technology opens up to the developing countries the possibility of concentrating on advanced industries, without losing time and resources to develop sectors of low economic efficiency. The use of plastics, new building materials and the like, for example, may be of great advantage.

From what has been said it by no means follows that developing countries should be able right now to utilise in their interests the optimal patterns of the structure of the economy which are being created in industrially developed countries. Such an approach could only inflict harm on the newly free countries which do not have the necessary material basis and experience in industrial development. Calculations made for industrially developed countries must not be mechanically transplanted to entirely different socio-economic conditions. Nevertheless many achievements of contemporary science and technology can facilitate and accelerate the elimination of economic backwardness by Asian, African and Latin American countries.

The existence of the world socialist system is creating favourable conditions for the accelerated economic growth of these countries. Economic relations with socialist countries, by destroying the monopoly of the imperialist powers, help developing countries to utilise more swiftly and fruitfully the know-how accumulated in the world.

A big role in this respect is played by economic and political co-operation with the Soviet Union which is steadily being extended. The Directives of the 24th CPSU Congress for the five-year national economic development plan of the USSR for 1971-75 envisage the further development of the Soviet Union's external economic relations with newly free

countries. Moreover, with many of them foreign trade and economic co-operation "are entering a stage where we may already speak of firmly established mutually advantageous economic ties. Our co-operation with them, based on the principles of equality and respect for mutual interests, is acquiring the nature of a stable division of labour, as opposed in the sphere of international economic relations to the system of imperialist exploitation".<sup>1</sup>

The industrialisation of developing Asian, African and Latin American countries, however, is encountering considerable difficulties. The countries most backward technically and economically are also beginning to industrialise. The gap which these countries have to bridge is many times greater than the one ever surmounted by any industrially developed country.

The situation is by far not the same in various countries. Today there are a number of countries—Argentina, Brazil, India, Mexico, the Arab Republic of Egypt and Turkey in which the per capita production of coal, iron and steel differs little from the level in Russia prior to the October Revolution (for the output of some "new" types of goods—oil and oil products, electrical goods, chemicals and others—they have notably outstripped the level of Russia in 1917). But in most Asian, African and Latin American countries per capita output is only one-third, one-fifth and in certain cases even only one-tenth of that level. Moreover, in the last 50 years industrially developed countries have greatly increased output and renewed their production facilities. Clearly, most newly free states have to bridge a gap in production levels without precedent in history.

But the main thing is even not so much the level of production as the level and state of a country's productive forces. On the eve of the October Revolution labour productivity in Russia was only one-ninth of that in the United States.<sup>2</sup> Today the lag of the developing countries is much bigger. According to some estimates, output per employed person in industry in Asian countries is one-fifteenth of that in the United States, and in African countries, one-twentieth. This gap is much wider in agriculture.

<sup>1</sup> 24th Congress of the CPSU, p. 200.

<sup>2</sup> See *Narodnoye khozyaistvo SSSR v 1959 g.* (National Economy of the USSR in 1959), Moscow, 1960, p. 89.

Modern industrial enterprises require very large capital investments, a continuous flow of big quantities of raw material and fuel, skilled workers and vast markets for the sale of their output. The scientific and technological revolution not only accentuates all this and makes higher demands on the quality of goods, but also leads to an unprecedented increase in the capital intensity of production (capital-output ratio) and the capital needed for furnishing one work place.

In recent decades production has been increasingly concentrated at big enterprises. While prior to the First World War, more than 72 per cent of the entire production of pig iron in tsarist Russia was contributed by blast furnaces with an annual output of less than 300,000 tons, at the beginning of the 1960s more than nine-tenths of all the pig iron was produced at blast furnaces with an annual output of more than one million tons.<sup>1</sup> Similar concentration of production is the rule in all countries and in all major industries.

The optimal alternative (for the main techno-economic parameters) of a modern iron and steel works with a complete production cycle is one with an annual capacity of 4 million tons of pig iron and 5 million tons of steel. The optimal capacity of a modern cement mill exceeds one million tons; of works producing motorcars 600,000, and lorries or tractors, 100,000-150,000. The generation of electric power is economically most efficient at plants with a capacity of more than one million kw.

The building of such large industrial projects naturally presupposes the existence of a sufficiently large and easily accessible market, which is practically lacking in all the young national states. Suffice it to say that total sales of motorcars and lorries in all Latin American countries in 1967 barely exceeded 650,000,<sup>2</sup> while the optimal capacity of a motorcar works, as pointed out earlier, is 600,000 cars. This is also true of other continents and of other goods.

The problem of the market thus acts as a great hindrance to the wide introduction of modern large enterprises in these countries. Other problems too arise. Concentration of production, as a rule, is accompanied by a growth in labour produc-

<sup>1</sup> See *Voprosy optimalnogo razmera predpriyatiya v promyshlennosti SSSR* (Questions of Optimal Size of a Soviet Industrial Enterprise), Moscow, 1968, p. 243.

<sup>2</sup> *Finance and Development*, December 1968, p. 28.

tivity. For instance, the increase of a blast furnace's useful volume from 1,033 cu m to 2,700 cu m sends up the annual output per worker from 5,990 to 12,500 tons of pig iron, i.e., 110 per cent.<sup>1</sup> In other industries the saving in labour might be somewhat smaller. But the concentration of production ultimately means that to produce a definite quantity of goods and to provide the necessary number of work places a considerably greater concentration of capital investments is needed.

This point is clear as regards the volume of output. If we say that the productive capacity of an enterprise increases 5-10 times and the necessary capital investments are cut by 25 to 50 per cent, this actually means that the actual investments needed for building such an enterprise will be 2.5-7.5 times greater than in setting up small enterprises.

Industrialisation in developing countries thus runs up against the need to mobilise huge resources. But the problem is further complicated by the fact that a modern works can function properly only if there are a number of allied sectors which provide raw materials, power and semi-manufactures, process the by-products, transport the goods, and so on. In other words, capital has to be invested not in one enterprise, but a whole complex, which further sends up the scale of resources that must be mobilised and invested in the national economy more or less simultaneously.

Big difficulties, moreover, arise because of the policy of the imperialist powers and the reactionary forces within developing countries which do everything to impede the attainment of economic independence by young states. Imperialism employs a totality of economic and political measures to warp the industrialisation process in developing countries and impart to it a scale and forms that would be compatible with its expansionist interests. This further complicates the industrialisation. There is no doubt, however, that the entire experience of their independent development and well-conceived and consistently pursued industrialisation will enable the developing countries to eliminate the disgraceful legacy of colonialism both in the national economy and in international economic relations.

<sup>1</sup> See *Voprosy optimalnogo razmera predpriyatiya v promyshlennosti SSSR*, p. 38.

In analysing the substance of industrialisation, the techno-economic aspect of the process often overshadows the other, social side. Yet, one must not forget that whatever techno-economic difficulties a country faces, the possibilities and scale of overcoming them depend on socio-economic factors. It is a cardinal distinction of industrialisation that it is simultaneously a techno-economic and socio-economic process. Industrialisation ends technical backwardness and equips the national economy with modern scientific and technological achievements. At the same time it is most intimately intertwined with the abolition of socio-economic backwardness and the remaking of all social relations.

The concrete methods of industrialisation, the nature of the problems it encounters are determined to a tremendous extent by the socio-economic conditions in which it is carried out. This is displayed with utmost clarity in the methods employed in mobilising resources for industrialisation. In the case of socialist industrialisation the state mobilises and concentrates all the resources which can be utilised for building bigger modern enterprises; in the case of private capitalist industrialisation the sources of accumulation of such resources are more limited and the proportion of small and medium-sized enterprises is greater. Deep-going land reforms create prerequisites for the development of industry, expand the market of manufactured goods, ensure the supplies of food and raw materials, and so on. On the other hand, the preservation of archaic relations in agriculture impedes the growth of industry. More even distribution of incomes facilitates the formation of a wide market, albeit for a limited line of goods; thereby conditions are created for launching modern lot production in a number of industries. Greater unevenness in the distribution of incomes which inevitably accompanies capitalist development, on the contrary, narrows the markets for the sale of certain goods and hinders their mass production.

For its part, the scope and pace of industrialisation largely predetermines many social processes in a country. Social and class shifts in society, in the first place the relationship between the working class and the bourgeoisie, greatly depend on the concrete forms of industrialisation. The building up of a material and technical basis of a more advanced society and, accordingly, the possibilities of social progress are linked to a substantial extent to the pace and forms of

industrialisation. The latter accelerates the growth of cities and the development of new industrial centres.

Were industrialisation only a techno-economic problem it would proceed in the same manner in all countries and would bring about the same social consequences. But the whole point is that under capitalism industrialisation leads to the polarisation of classes, enrichment of the bourgeoisie and pauperisation of the working people, while under socialism it consolidates the social economy and ultimately raises the well-being of the masses.

The techno-economic approach to industrialisation, overshadowing the social aspect of the issue, may lead to a wrong approach in solving problems facing a country. A number of countries in developing a new sector or industry are concerned not so much about building factories whose output could compete in the world market as organising their own production of certain goods, without regard to its efficacy in terms of world standards. This applies not only to military sectors but also to those without the development of which the independent use of available resources is hampered or is even impossible. Within certain bounds techno-economic indicators of production and its competitive position in the world market alone may not be under these conditions the main criterion of industrial development and industrialisation. This naturally creates certain difficulties at subsequent stages. But it will be easier to overcome them, relying on the built-up material basis.

In the early stages of industrialisation, which include the creation of basic enterprises in the key sectors of the economy—the power, steel, fertiliser and engineering industries—outside economic and technical assistance is needed in most cases, although its volume and forms may differ in various countries. But at subsequent stages when a country creates its own scientific, technological and production facilities for further industrialisation, prerequisites are created for establishing new external economic relations based on the new international division of labour.

Relying on the assistance and support of socialist states, developing countries can obtain economic, scientific and technical assistance of the imperialist powers on more favourable terms. In a number of cases young states can also count on mutual help and support.

Notwithstanding all these and other advantages which

developing countries have in the present conditions, their industrialisation (which is tantamount to eliminating technico-economic backwardness) is an exceedingly intricate, difficult and lengthy process.

Industrialisation is an extensive process which in present-day conditions encompasses the reconstruction of all sectors of the national economy and the laying of a country's new material and technical basis. In addition, industrialisation presupposes the transformation of the social structure, a change in the place and role of the developing countries in the world economy, their conversion from agrarian-raw material appendages to a handful of imperialist powers into equal partners in the world economy.

However, industrialisation is not an endless process. It is confined within definite historical bounds. A country becomes industrial when the operation of all the main sectors of its economy is based on modern large-scale machine-based industry. Proceeding from the attained level in the development of science and technology in the world today, the economically less developed countries might start their industrialisation with the widest introduction of industrial production methods in all sectors of the economy, and the restructuring of the latter through specialisation of production on the basis of the developed international division of labour.

Utmost use of the advantages of the international division of labour on a regional or inter-regional basis, the creation of highly efficient lines of production, most favourable from the viewpoint of the natural, geographical, historical and other conditions, might considerably facilitate and speed up industrialisation of most countries.

In developing countries industrialisation is a component part of the struggle for economic independence from imperialism, and as such objectively bears an anti-imperialist nature. Utilising at the initial stage the know-how and technology of imperialist states to accelerate their economic growth, young states at the same time create the material prerequisites for their full liberation. While attracting foreign capital, many Asian, African and Latin American states take measures to curb its exploiting substance. Imperialist monopolies are presented with a number of demands, especially in countries with a socialist orientation, demands which protect the national interests and facilitate the achievement of the vital goal of independent development. Such

relations of developing countries with imperialist monopolies is one of the important forms of continuing the national liberation struggle at the economic front. On suffering defeat in the struggle to preserve colonial regimes, imperialism seeks to entrench itself in the economy of the newly free countries. That is why their people are forced to give battle on the economic front. The dilemma they face is whether to give up attracting capital and know-how from the outside and doom themselves to a long period of stagnation in conditions of deep-seated techno-economic backwardness and poverty of the masses and thereby remain an object of exploitation by imperialism or, drawing on outside assistance, greatly to speed up their development, build up national large-scale industries, and, on this basis, modernise the entire national economy, raise the living standard of the masses and attain complete economic independence from imperialism. Such a dilemma could only arise because of the existence of the world socialist system; relying on its support the peoples of developing countries are trying to attract the resources of the imperialist monopolies too.

But the attraction of foreign capital is a specific form of compromise and, like any compromise, it is a transitory phenomenon. A keen struggle is waged between the parties according to the principle "who will win" to decide whether the developing countries, utilising the machinery and know-how of the imperialist monopolies will succeed in eliminating their techno-economic backwardness and becoming independent states or imperialism will still more enslave them and force them onto the path of semi-colonial capitalist development. Although at first glance the forces are unequally matched, the very possibility of such compromises (and struggle) is a result of the successes of the national liberation movement, a result of the collapse of colonial regimes. The victory of the progressive anti-imperialist forces in this struggle can be achieved with support from socialist countries and the entire international working-class and communist movement.

Industrialisation of developing countries is thus an important link in the general chain of the anti-imperialist struggle waged by the progressive peoples of the world. For its historical role and consequences industrialisation can be likened to a revolution because it qualitatively alters the material basis of society and its social pattern.

## DISTINCTIONS AND PROSPECTS OF INDUSTRIAL DEVELOPMENT

The effort to build up a national industry is characteristic of the economic policy of all developing countries in the postwar period. The industrialisation slogan has been put forward by the governments of most of the newly free countries, the need for the closest co-ordination of this process with all the sectors of the economy and its dependence on the concrete socio-economic conditions of a country being relegated to the background. With the agricultural orientation of the national economy and its dependence on imports of manufactured goods not only for productive purposes but also for personal consumption, the building up of a dynamic industrial sector has been regarded by the national forces as the most effective way of restructuring the economy. This was a natural reaction to the recent past, when the difference in the development level of the colonies and the metropolitan countries was above all associated with the absence in most of the dependent countries of a national industry, especially sectors in Department I (industries which supply producer goods).

The relatively swift expansion of industrial production at the initial stage which occurred in different forms in practically all the newly free countries gave rise to the opinion about the relative ease of building up a national industry, and this was reflected in many long-term plans. The dynamism of industry stood out especially against the background of the low growth rates in agriculture. For all developing countries the annual average increase of the gross national product in agriculture was 3.2 per cent in 1950-60 and 2.6 per cent in 1960-68, while in industry the respective

figures were 6.6 and 6.4 per cent.<sup>1</sup> In 1966 a worker engaged in industry produced an output 12 times bigger than in agriculture.

In assessing these indicators account should be taken of a number of factors which promoted industrial production in the postwar period. These years were marked by a livening up of national private enterprise which extensively utilised the opportunities offered by the government economic policy, specifically the protection of the home market. The absence or considerable weakening of competition of imported goods (true, simultaneously the foreign companies operating within these countries grew stronger) made it possible greatly to expand industrial output in the available factories mainly in industries of Department II (production of consumer goods).

In this period the demand for raw materials by developed countries was maintained at a rather high level. The foreign-exchange reserves of the developing countries were not exhausted, which enabled them to buy industrial materials and machinery for expanding output at the existing capacities and the building of new enterprises. We should also consider the point that it was during these years that developing countries began to receive considerable financial resources under aid programmes.

The fundamentally new factor which exerted a beneficial impact on expanding national industry was the establishment and furtherance of contacts with the world socialist system, which facilitated the obtaining of state credits directly designated for industrial construction.

### 1. THE GROSS PRODUCT AS AN OVERALL INDICATOR OF ECONOMIC DEVELOPMENT

The problem of accelerating economic growth is of especial significance for developing countries. By way of a recommendation to developing countries, the UN General Assembly tried to set for them minimum targets of the necessary rate of growth. In its 1961 resolution (No. 1711) it proclaimed the Development Decade, as a result of which

<sup>1</sup> UN. *Yearbook of National Accounts Statistics*, 1969, Vol. II, New York, 1970, p. 131.

newly free countries had to attain an annual increase in their gross domestic product of at least 5 per cent.

According to UN data, the average annual growth rates of the gross domestic product of developing countries amounted to 4.7 per cent in 1960-68, i.e., did not attain the set minimum and, moreover, lagged behind the industrial capitalist states (the latter increased their gross domestic product at the average rate of 5.3 per cent).<sup>1</sup> Moreover, owing to the low initial level of production in developing countries, every per cent of increase in their gross product was insignificant as compared with that in industrial states.

The average annual growth of the gross domestic product of individual young states differed greatly. This was a consequence of diverse reasons: the growth rate of the gross product depends on each of its constituent elements. The swift rise or lag of one sector (for example, a sharp reduction in agricultural output owing to a crop failure) is reflected in the overall indicator, the gross product. In a number of cases one sector is the decisive factor in increasing or decreasing the gross product.

Some countries the economy of which is based on the extraction of minerals registered a comparatively swift increase of the gross product between 1955 and 1968. This was the result of a steep expansion of output, mostly by foreign companies. The growth of the gross product in Kuwait, Libya, Saudi Arabia and Trinidad and Tobago was chiefly the result of expanded production of oil; in Jordan, of extending the mining of phosphates (their exports were increasing in value by about 15 per cent annually); and in Liberia, on account of the mining of iron ore (its exports rose by 30 per cent annually).<sup>2</sup> (See table on p. 23.)

A relatively high share of manufacturing in the gross product of a developing country by no means guarantees its swift economic growth in future because the existing structural disproportions, the predominance of raw materials in their exports and the remnants of archaic agrarian relations lead to unstable economic growth and in the case of certain countries to stagnation.

<sup>1</sup> UN. *Yearbook of National Accounts Statistics, 1969*. Vol. II, pp. 130-31.

<sup>2</sup> UN. *World Economic Survey 1967*, New York, 1968, p. 19.

Average Annual Growth Rates of the Gross Domestic Product in Selected Developing Countries<sup>1</sup>  
(per cent)

Country	1955-60	1960-67	Increase in 1968 as compared with the annual average for 1960-67
Libya	14.3	31.0	48
Jordan	10.3	11.7 <sup>2</sup>	—
Liberia	10.1	12.0 <sup>2</sup>	—
Iraq	5.8	5.7	12
Kuwait	11.1	4.9 <sup>2</sup>	—
Iran	7.7	7.7	10
Saudi Arabia	4.3	9.0	9
Trinidad and Tobago	9.7	6.5	6

Differences in economic growth rates between individual newly free countries and fluctuations of this rate do not depend, as will be shown subsequently, only on the structure of the gross product and the share of its elements.

The growth rates of industrial output exceed those of the gross product because agriculture greatly lags behind in its development. Between 1950 and 1969 the gross domestic products increased by 150 per cent, with industrial output rising by 260 per cent and agricultural output only 83 per cent.<sup>3</sup>

In comparing the structure of the gross domestic product of developing countries, on the one hand, and of industrially developed countries, on the other, a certain connection is revealed between this structure and the level of economic development. Thus, an insignificant share of agriculture in the gross product is usually the rule in all economically developed countries, including even those which are big exporters of farm produce. For example, in 1970 the share of agriculture in the gross product amounted in Australia (1967) to 7.1 per cent and Denmark to 7.5 per cent, while the share of the manufacturing industry in these countries

<sup>1</sup> Ibid., p. 20.

<sup>2</sup> 1960-65.

<sup>3</sup> UN. *Statistical Yearbook 1970*, New York, 1971, p. 31.

reached 25 and 27 per cent respectively. The share of agriculture was even smaller in France (6 per cent), the Federal Republic of Germany (3 per cent) and the United States (3 per cent), while the share of the manufacturing industry was 35, 43, and 26 per cent respectively.<sup>1</sup> In industrially developed countries such a ratio is combined with a large volume of output in all sectors of the economy, while in developing countries a reduction in the share of agriculture is mostly determined by the low level of this sector, which, in turn, slows down the general increase of the gross product.

The share of trade is approximately the same. But with the increasing per capita income there is a tendency towards a rise in the share of the services.

A change in the structure of the gross product is by far not of the same nature in all countries. But in the postwar period the general tendency for developing countries (with rare exceptions) is a reduction in the share of agriculture; in a number of them the share of the extractive industry, the infrastructure and the services has noticeably increased. In Africa (exclusive of the Republic of South Africa) the share of the extractive industry rose from 4 to 7 per cent between 1958 and 1964, that is, by 75 per cent with a small increase in the share of the manufacturing industry (from 9.9 to 10.5 per cent) and a decrease in the share of agriculture. In Libya, the intensive exploitation of the oil deposits sent up the proportion of the extractive industry (including electric power) to 62 per cent in 1968 as compared with 8 per cent in 1959. During the same period the share of agriculture dropped from 26 to 3 per cent and of manufacturing, from 12 to 2 per cent.<sup>2</sup>

On the whole the structure of the gross product in most developing countries, notwithstanding certain changes, is still of a strikingly pronounced raw-material nature. Although in a number of countries there is a noticeable increase in the share of the manufacturing industry, the small size of the gross product of agrarian countries, with the big share and slow growth rates of agriculture, shows that its lag is one of the main factors hampering the faster economic advance of many developing countries.

<sup>1</sup> UN. *Monthly Bulletin of Statistics*, May 1972, pp. 295-10.

<sup>2</sup> UN. *Statistical Yearbook 1968*, New York, 1969, p. 579; UN. *Yearbook of National Accounts Statistics, 1969*, Vol. II, p. 68.

## 2. GROWTH RATES AND TENDENCIES OF INDUSTRIAL PRODUCTION

Utmost stimulation of industry has become one of the major trends in the economic policy of most national governments in developing Asian, African and Latin American countries.

The growth rates of their manufacturing industry were relatively high in the last 20 years, but its share in the gross product remained small. Owing to the low initial level, industrial output outstripped the gross product noticeably in growth rates, even though in absolute value it increased insignificantly.

If we examine data of developing countries in their entirety we find that within the industrial sector output of the extractive industry grew at a faster pace; between 1938 and 1970 it rose 9.8 times. It increased chiefly through the big expansion in oil production, the share of which in total industrial output went up from 5.7 per cent in 1938 to 18.6 per cent in 1970, while the share of the extractive industry without oil dropped from 12.4 to 4.6 per cent.<sup>1</sup> But the extraction of minerals for their subsequent export in the form of raw materials by itself cannot ensure the development of the national economy as a whole and promote eco-

Share of Developing Countries in the Production of Selected<sup>2</sup> Goods in the Capitalist World Economy<sup>3</sup>

	(per cent)	
Pig iron	1960	4.7
	1966	5.6
Steel	1960	3.3
	1966	4.8
Cement	1960	17.8
	1966	19.1
Electric power	1960	7.0
	1966	7.8

<sup>1</sup> UN. *The Growth of World Industry 1938-1961*, New York, 1965, p. 242; UN. *Monthly Bulletin of Statistics*, May 1972.

<sup>2</sup> UN. *World Economic Survey 1966*, Part II, New York, 1967, p. 3.

nomic independence, especially if the natural wealth is exploited by foreign companies. At the same time in a number of countries the increase in mineral production is caused by the policy of industrialisation.

Despite certain acceleration of growth, the place of developing countries in the industrial output of the capitalist world has practically not changed. True, between 1948 and 1968 the share of developing countries in the output of the extractive industry as a whole rose from 16.7 to 36.2 per cent, but in the output of the manufacturing industry their share was 8.4 and 11.7 per cent respectively.<sup>1</sup>

The output of the manufacturing industry in developing countries in recent decades has increased chiefly in sectors designed for satisfying internal requirements. The need to protect the young national industry against the competition of developed capitalist countries has compelled the governments of most newly free countries to take protective measures (customs tariffs, licensing of imports, and so on). This has facilitated the relatively swift growth of industrial output and some structural shifts in favour of heavy industry. (See table on page 28.)

These shifts have occurred primarily in a small number of the bigger and more developed countries. On the whole, however, the bulk of the output of the manufacturing industry in developing countries is still contributed by the food (production of foodstuffs, beverages and tobaccos) and the light industries (chiefly textiles, clothing and footwear). These traditional industries which process local agricultural raw material for home consumption exist in almost all Asian, African and Latin American countries. Moreover, in some they have attained relatively high degree of development and satisfy a big part of the home market demand. Although in these industries small, technically backward enterprises prevail as a rule, they to a certain extent train industrial personnel. They are not capital-intensive and show the highest employment figures per unit of output. Account should also be taken of the fact that industries of Department II are an essential source of capital accumulation for

<sup>1</sup> UN. *The Growth of World Industry 1938-1961*. International Analyses and Tables, New York, 1965, p. 234; UN. *The Growth of World Industry 1958-1967*, New York, 1970, p. 388; UN. *Statistical Yearbook 1970*, pp. 50-53.

developing countries. Being a sizeable consumer of machinery and equipment, they potentially stimulate the development of the engineering and other heavy industries.

On the whole, the share of traditional sectors in the industrial output of developing countries dropped from 69 per cent in 1938 to 55 per cent in 1968. In a number of countries, however, they still account for 70-80 per cent of the output of the manufacturing industry. In recent decades their growth rates have been slower than in the new branches of heavy industry. Between 1938 and 1970 the output of the light (including the food) industry increased 4 times and of heavy industry 10 times.<sup>1</sup> In Latin America the increase in the output of the food industry has only slightly outstripped population growth, while per capita production of the textile industry has even decreased. With an increase in population by 2.9 per cent annually, the food industry expanded production by 4.2 per cent between 1960 and 1967, i.e., 1.3 per cent per capita; the textile industry increased output by 2.3 per cent annually, a decrease of 0.6 per cent per capita.<sup>2</sup>

The new industries considerably outstripped the traditional ones as regards rates of growth. Between 1955 and 1966, for example, the production of steel in developing countries rose more than 3 times (from 4.2 million to 15.6 million tons); cement, 2.4 times (from 26.5 million to 63 million tons), and the output of the metalworking industry doubled. Such sectors as the oil refining, chemical (including petrochemical and coke and by-products) and the pulp and paper industries are also expanding at a swift pace. The importance of all these industries which produce basic materials is difficult to overestimate, because, being connected by reciprocal ties with many other sectors, they ensure the possibility of their further development.

As a result of the shifts, the structure of the manufacturing industry has changed in all developing countries and also in separate regions.

Structural changes are most noticeable in the industry of Latin America where the share of heavy industry greatly

<sup>1</sup> Calculated according to the *Monthly Bulletin of Statistics*, November 1969; May 1972.

<sup>2</sup> UN. *World Economic Survey 1968*, Part II, New York, 1970, p. 9.

Changes in the Structure of the Manufacturing Industry  
in Developing Countries<sup>1</sup>  
(per cent)

	Light industry				Heavy industry			
	1938	1948	1963	1968	1938	1948	1963	1968
Developing countries (including Africa, without the Repub- lic of South Africa)	68.9	67.2	57.8	55.2	31.1	32.8	42.2	44.8
Latin America	67.4	64.7	53.7	50.6	32.6	35.3	46.3	49.4
Countries of Asia and the Far East	75.2	72.1	61.7	59.0	24.8	27.9	38.3	40.0

increased, chiefly on account of the group of the economically more developed countries—Argentina, Brazil and Mexico.

The output of the manufacturing industry in developing countries increased relatively swiftly, though unevenly (5.7 per cent annually on the average in 1962-68) and was due chiefly to the priority growth of the heavy industries (7.5 per cent annually), while the output of the food and light industries increased at a slower pace (4.6 per cent annually).

In examining the changes in the proportion of different sectors in the total output of manufacturing in developing countries we first of all notice the growth in the share of the chemical and metalworking industries (from 10.6 and 9.7 per cent in 1938 to 14.6 and 16.9 per cent in 1968 respectively), with a decrease in the share of the food (from 27.8 to 25.1 per cent) and the textile (from 18.6 to 12.6 per cent) industries.<sup>2</sup>

Summing up the results of the industrial advance of developing countries in the postwar period the UN Industrial Development Organisation (UNIDO) arrived at the conclusion that the structure of industry in developing countries has serious shortcomings determined by the fact that attention was concentrated on the production of consumer goods

<sup>1</sup> UN. *The Growth of World Industry 1938-1961*, pp. 242-44; *Monthly Bulletin of Statistics*, November 1969.

<sup>2</sup> Ibid.

and lately to some extent also of consumer durables, while the manufacture of capital equipment, specifically heavy engineering, lagged even when this production did not require excessively intricate technological processes.<sup>1</sup>

At the present stage this remark applies above all to a small number of developing countries which possess not only sufficient resources for building such capital-intensive enterprises as steel works and engineering plants, but also a sufficiently large market for the sale of their output.

As regards the possibilities of industrial development big and small countries are in a different position. The advantages of a big country are connected, as a rule, with the great diversity of natural resources. This facilitates the creation of a diversified economy, a greater division of labour and, thereby, the expansion of the home market for industry. No less important a factor in this respect is the size of the population.<sup>2</sup> This is of particular importance for developing countries because the sale of their manufactured goods in the world capitalist market is exceedingly difficult and a sufficiently large internal consumer demand offers a more or less reliable and stable (and in most cases the only) guarantee of the sale of many national manufactures. From this follows the difference in the prospects and nature of their development. This was noted in particular by Prof. P. Mahalanobis, who pointed out that a big country "is able to develop industrially on the basis of its own resources, constantly to extend the basis for new capital investments—

<sup>1</sup> See *Economic Survey of Asia and the Far East 1967*, Bangkok, 1968, p. 116.

<sup>2</sup> Thus, among the newly independent African countries only eight have each a population of more than 10 million (Algeria, Zaire, Morocco, Nigeria, the Arab Republic of Egypt, Sudan, Tanzania and Ethiopia); in 27 countries the population is less than five million and in eight of them less than one million, for example, the People's Republic of Congo, 870,000; Gambia, 350,000; Gabon, 480,000; Mauritius, 810,000. Of the 24 Latin American countries only five have a population of more than 10 million each (Argentina, Brazil, Colombia, Mexico, Peru); in 15 countries the population is under five million (including Barbados, 252,000 and Guyana, 719,000). A number of Middle East countries has less than one million people each (Bahrein, Masqat and Oman, Qatar, Kuwait, and others).

Overpopulation is characteristic of many countries of Asia and the Far East. But here, too, there is a tremendous difference between individual countries as regards the size of population—from more than 500 million in India to 2.8 million in Laos (UN. *Statistical Yearbook 1969*).

and it will require comparatively little (in per capita terms) capital from the outside. . . . A big country might undertake to produce almost any article, but small countries must specialise and develop bilateral and multilateral trade".<sup>1</sup>

The establishment of small factories in the food and light industries which process local or even imported raw materials is within the reach of even the smallest countries. As a rule, however, the building of enterprises in new, modern sectors—the only possible basis of a country's industrialisation—such as chemical, steel or engineering, involves big difficulties. These capital-intensive industries require big investments which can be recouped only over many years. "...New industries, to be really efficient, must operate on a larger scale and use more up-to-date technology, the domestic markets are too small for them and, logically, their operating costs are too high."<sup>2</sup>

The size of enterprises in a number of modern industries is determined by far not only by profit considerations. The production methods themselves dictate a definite size of enterprises. This, for example, applies to the production of aircraft, automobiles, big machine tools, heavy electrical equipment, rolling stock, and so on. Moreover, in conditions of the scientific and technological revolution equipment becomes obsolescent very swiftly and its renewal, naturally, involves a big expenditure. All this limits the possibilities of a small country and confronts it with the need for co-ordinating its efforts with other countries.

Big countries stand out among Asian, African and Latin American states for their more diversified industrial pattern. What is characteristic of them is the existence of modern big enterprises in a number of key industries—iron and steel, chemical (including petrochemical and coke and by-products), engineering and machine-tool making, shipbuilding, and others. Thus, Argentina, Brazil and Mexico have steel works, chemical factories, oil refineries, petrochemical and coke and by-product plants, pulp and paper mills, factories which produce automobile parts and subassemblies for automobile assembly plants, tyre factories; they produce

<sup>1</sup> Mahalanobis, "Industrialisation, a Key to Consolidating Independence", *Sovremennyj Vostok* No. 12, 1958, pp. 17-18.

<sup>2</sup> UNIDO, *Notes on Industrial Development Strategy in Latin America*, p. 5 (ID/Conf. I/B. 33, August 7, 1967).

machinery and equipment, in particular, for the textile, paper and oil industries. The reservation should be made, however, that many of the enumerated industries have no complete production cycle and a more or less substantial share of the parts has to be imported (this applies, for example, to the assembly of automobiles, tractors, wireless sets, and so on).

India too should be placed in the same rank with these countries. Notwithstanding the low level of per capita industrial production (a mere \$17 in 1966), for total output of manufacturing India holds one of the first places among the developing countries (in 1967, \$5,138 million as compared with \$5,902 million in Argentina, \$4,916 million in Mexico, \$5,453 million in Brazil and \$1,225 million in Venezuela).<sup>1</sup> During the years of independence large steel, engineering and chemical works and oil refineries have been built and the country produces motor vehicles, tractors, electrical precision instruments, and so on. The point is, however, that the large modern industrial complexes in India represent only an insignificant proportion of the economy as compared with the huge, exceedingly backward agricultural sector.

### 3. SECTORAL STRUCTURE OF LIGHT INDUSTRY

In the mid-1960s about half of the entire value of the output of manufacturing in developing countries was contributed by industries which produce foodstuffs, beverages and textiles, i.e., enterprises of Department II. This structure is typical of the first stages of industrialisation and differs from the indicators characteristic of developed capitalist countries, above all the relationship between light and heavy industry in manufacturing (for North America it was 35 and 65 per cent, and for Western Europe, 38 and 62 per cent respectively).<sup>2</sup> Such a sectoral specialisation of industry in economically backward countries arose during the colonial period and was consolidated under the influence and pressure of the world capitalist economy. The dynamics of the main industries is of paramount importance for changing it.

<sup>1</sup> UN, *Yearbook of National Accounts Statistics*, 1968, Vol. II, New York, 1969, pp. 55-56, 86, 88, 91.

<sup>2</sup> Calculated from data of the *Monthly Bulletin of Statistics*, May 1969, p. XIX.

Change in the Share of Sectors in the GNP  
of Developing Countries<sup>1</sup>  
(per cent)

Country	Year	Agriculture	Industry	Construction	Transport	Trade	Other sectors
Kenya	1954	47	10	4	7	14	18
	1968	35	14	5	8	10	28
Morocco	1953	34	18	8	—	25	15
	1968	35	21	5	—	21	18
Argentina	1950	14	31	6	7	17	25
	1968	14	36	6	10	13	21
Brazil	1950	27	24	—	—	18	25
	1966	19	27	—	6	13	35
Chile	1950	14	23	3	6	19	35
	1967	8	38	5	5	22	22
Mexico	1950	23	27	3	5	26	16
	1967	16	33	4	4	26	17
Paraguay	1950	42	17	2	4	18	17
	1968	32	17	3	4	24	20
Sri Lanka	1950	58	5	7	4	9	17
	1968	39	12	6	9	12	22
India	1950	51	16	—	4	17	16
	1967	52	15	4	4	10	15
Philippines	1950	39	14	7	3	13	24
	1968	34	20	4	4	11	27

In comparing the data in the table we can single out the group of countries where industry contributed up to one-third of the GNP (Argentina, Mexico, Chile). These countries have traversed the longest road of industrial development as compared with most states in the three continents, a road

of slow and gradual build-up and expansion of productive capacity.

No qualitative changes in the pattern of industry itself have occurred in developing countries; they are only being prepared in the biggest Latin American countries and also in India and the Arab Republic of Egypt. This is also demonstrated by the new investments in industry which are designated above all for expanding and modernising the traditional consumer goods industries. Most of the invested resources in the form of equipment, raw and building materials go to the light industry.

Government policy aimed at maximising the local production of import substitutes has played a definite part in channelling new investments. This has been applied in the first place to consumer goods because the expansion of their output was a more feasible aim than organising the manufacture of new types of goods. The limited financial resources also prevented the investing of funds simultaneously in traditional industries in order to extend and reconstruct them and in new industrial construction in Department I. The exception is India where more than one-third of the new investments have gone into the metalworking industry. But this exception confirms the rule: quantitative changes, reflected above all in an increase in output, did not bring about structural shifts in industry of most countries. Only a few big countries began to build up engineering sectors most important as regards the prospects of developing national industry. This implies that the renewal of productive capacity, as hitherto, depends on the import of machinery and equipment. The most substantial result of this stage in industrial development is the increase of accumulations in light industry which makes possible the transition to building new enterprises, in Department I included.

Up to now industry has not exerted any considerable influence on the reconstruction of the other sectors of the economy. To a certain extent the development of industry has proceeded separately from them, it depends on external economic factors, in the first place credits, equipment and technological know-how. The ties of manufacturing with agriculture and the extractive industry have in fact been limited only to the delivery of raw material by the latter. As for the manufacture of machinery, equipment, and other goods needed for these sectors, so far it is practically absent

<sup>1</sup> UN. *Yearbook of National Accounts Statistics, 1969*, Vol. II, pp. 68, 70, 75, 76, 83, 84, 90, 91, 93.

in most newly free countries. Only in some of them is the production of fertilisers for agriculture being organised.

Nevertheless, the development of industry, even though confined to Department II, influences agriculture, constantly increasing the demand for industrial crops and other raw materials. This stage is characterised by an increase in the industrial consumption of agricultural raw material, cotton in the first place (the production of cotton textiles is one of the biggest industries in most developing countries). The consumption of cotton by developing countries rose from 2,017,000 tons in 1955 to 3,177,000 tons in 1966.

Industrial Consumption of Cotton by Countries<sup>1</sup>  
(thousand tons)

Country	1953	1960	1966	1970	Percentage of Increase as compared with 1953
Argentina	91.9	108.4	106.2	100.8	10
Brazil	195.1	271.0	260.2	292.7	50
Colombia	28.8	51.2	65.0	69.4	141
Mexico	—	108.4	147.4	148.5	37
India	865.1	1,001.7	1,097.1	1,187.1	37
Philippines	22.0	31.4	40.1	35.8	55
Burma	—	5.5	7.6	14.1	157
Syria	7.2	12.4	20.6	22.8	217

In countries where the development of the textile industry was started not long ago—Syria, Burma and the Philippines—consumption of cotton rose at a relatively faster pace than, for example, in India and Argentina.

In Latin America 50 per cent of the value of the gross product of the manufacturing industry in 1960 was contributed by industries processing agricultural raw materials. In small countries of this continent the proportion reached up to 76-82 per cent.<sup>2</sup> The dependence of industries in

Department II on agriculture is especially noticeable in years of poor crops. The decrease in harvests because of the droughts in 1965 and 1966 slowed down industrial development rates even in India, although this country has a more diversified industrial basis as compared with other developing countries. One cannot but agree with the conclusion of the UN Economic Commission for Asia and the Far East which pointed out in 1967 that "directly or indirectly, manufacturing performance in most countries of the region is still heavily conditioned by the fortunes of agriculture, despite the marked broadening of the industrial base in recent years".<sup>1</sup>

The initial stage of industrial development, through which all developing countries inevitably pass, includes the building and enlargement of enterprises engaged in semi-processing of exported agricultural and mineral raw materials with the object of increasing their value and thereby getting better prices. This brought certain results, as shown by an increase in the proportion of processed goods in the exports of developing countries between 1955 and 1966: fruit, from 9 to 13 per cent; vegetables, from 13 to 24 per cent; hides and skins, from 28 to 37 per cent; aluminium, from 4 to 21 per cent; zinc, from 21 to 26 per cent; and so on.<sup>2</sup> In a number of African countries this form of industrial production has become prevalent because it is relatively easy to organise it (for example, the sorting and cleaning of fruit in Mali, Dahomey and Gambia). But the further development of this trend is impeded by the desire of importing countries to process the raw material at their own enterprises which, among other reasons, is motivated by the low quality of local processing at small handicraft establishments.

These types of industrial production in most developing countries do not require the building of modern enterprises. As a rule, an increase in output or its slight modification takes place at existing enterprises with obsolete equipment, mainly through the use of manual labour. Establishments of this type are widespread in the developing countries. Within limits, they are beneficial for national economic development. The expansion of output in industries of Department II sends up the demand for agricultural raw materials. The conse-

<sup>1</sup> UN. *Statistical Yearbook*, 1961, 1967, 1970.

<sup>2</sup> UN. *Economic Survey of Latin America* 1966, New York, 1968, p. 364.

<sup>1</sup> *Economic Survey of Asia and the Far East* 1967, p. 107.

<sup>2</sup> UN. *World Economic Survey* 1967, Part I, p. 58.

quent rise in prices makes the peasants interested in greater commercialisation of their farming. This above all applies to industrial crops, for which the farms themselves have little use. The expansion of light industry which processes local agricultural raw material leads to a more stable demand and closer links between small peasant farms and industry.

The possibilities for developing import-substitute industries are not exhausted and they continue to expand. But since the beginning of the 1960s unfavourable tendencies in this industry as a whole have become more apparent. Besides the temporary effect of several poor crops in the biggest developing countries, the influence of other factors has been felt. The growth of the population, the increasing stratification in the countryside and migration to the cities, expand, even though slowly, the demand for foodstuffs and manufactured goods. But light industry does not develop at an adequate pace because its production basis remains practically unchanged. Import restrictions result in that local enterprises under the shelter of protectionist tariffs produce goods which are expensive and of low quality.

National industry does not satisfy the substantially higher need of agriculture in chemical fertilisers and machinery. The following example is indicative. In 1968/69 the production of mineral fertilisers in developing countries rose five times from the annual average of 1952-56 to a total of 3.3 million tons, while their consumption in the same year amounted to 7.7 million tons.<sup>1</sup> This means that even at the existing low level of application of fertilisers agriculture can be adequately provided only by importing more than twice as much as could be produced locally. Particularly wide is the gap in Latin America: in 1967/68 local production amounted to 450,000 tons, while consumption reached 1,060,000 tons; in Africa (exclusive of the Republic of South Africa) the respective figures were 513,000 and 809,000 tons.<sup>2</sup> This was a natural result of the fact that the development of import-substitute industries, determined in the main by the existing market and the structure of consumption, does not create prerequisites for the development of new sectors. This point is now widely recognised in economic literature.

<sup>1</sup> FAO, *The State of Food and Agriculture*, 1970, Rome, 1970, p. 29.

<sup>2</sup> FAO, *Monthly Bulletin of Agricultural Economics and Statistics*, February 1969, pp. 17-18.

Thus, analysing the reasons for the drop in the growth rates of Latin American industry, the economic survey of ECLA for 1967 mentions, alongside inflation and the worsened balance of payments, the stopping of the favourable influence exerted by the process of substituting imports, while the creation of export-oriented sectors is unable to exert a stimulating influence on the growth of industrial output. This process is particularly evident in Argentina and Brazil which account for 55 per cent of the value of the manufacturing industry output in Latin America.<sup>1</sup>

At a certain stage the growth of industrial production, which takes place mainly on the basis of light industry, reduces a country's dependence on the imports of consumer goods and sends up the demand for local agricultural raw material. At the same time this creates and increases the dependence on the purchases of machinery and equipment, and technical advice, because even at a low technological level most light industry enterprises have to renew their production facilities. Changes in the industrial structure by building heavy industry plants were dictated by pressing economic needs in a number of countries.

Summing up the main results of the development of industry in developing countries since the Second World War, it should be noted that this process has been of an extensive nature. The dependence of industry on agriculture has increased because the sectors working on agricultural raw material have been expanded in the first place. However, national industry is still unable to promote a reconstruction of agriculture and a rise in its efficiency. The extractive industry is still export-oriented because the domestic demand for its output is insufficient, while the export of minerals is a major source of foreign exchange.

Among the unquestionable achievements registered by industry of developing countries in this period is the increase in the proportion of the home demand covered by local industrial production; the range of exports has been broadened, in some countries quite substantially because of the appearance of new goods produced by national industry. The number of workers employed at factories and plants has increased and, consequently, future development is facilitated by the availability of manpower having industrial skills.

<sup>1</sup> UN, *Economic Survey of Latin America 1967*, Part II, p. 241.

#### 4. BUILDING OF THE INFRASTRUCTURE AS A SPECIAL ASPECT OF INDUSTRIAL DEVELOPMENT

Industrialisation, viewed as a process of restructuring the economy, inevitably leads to greater division of labour on a national economic scale. An indicator of this process is the development of the transport system, the power industry and other productive services. The high level of capital investments in building the infrastructure is characteristic of practically all the economically backward countries after they gain political independence. This is largely explained by the fact that the existing infrastructure does not cope with the task of serving the national economy. In this context infrastructural construction can be regarded as one of the stages of industrialisation which promotes the restructuring of the economy.

The development of the infrastructure is closely linked with and, in a way, precedes changes in the sectoral pattern of the entire economy. The shifts emerging in the national economy, in turn, affect the building of the infrastructure. The transition from natural subsistence to market economy, which was accelerated after the achievement of independence and a number of economic measures taken by national governments, the mass migration of the population, especially the influx into the cities, have increased the need in transport facilities. The discovery and working of new mineral deposits and industrial construction inevitably involve an increase in goods carriage to the undeveloped areas. The building of modern industrial enterprises, which requires the free movement of manpower, raw materials, equipment and finished goods, largely depends on, and is determined by, the available infrastructure. The discrepancy between the existing transport system and the power facilities and the growing needs of the economy is distinctly revealed in analysing the concrete conditions of countries in the three continents.

The weakness or in most cases the absence of transport links between regions in the interior is characteristic of developing countries and is one of the reasons for their mounting economic difficulties. For example, in countries like Nepal and even India, in years of poor crops the delivery of food to the stricken areas from other regions is more

involved and costly than its shipment from abroad. A similar situation exists in some African countries: even in face of imminent famine the delivery of grain from the western and southern regions of Cameroun to the northern areas was impossible.<sup>1</sup> In East Africa in the Great Lakes area inland transport costs are 6-10 times greater than in case of foreign-trade shipments.<sup>2</sup> To this day there are no railroads in a number of countries in Tropical Africa (Chad, Central African Republic, Gambia, Gabon and others). Relations between countries are also complicated by the different width of the railway gauge and lack of unified technical standards. This is one of the reasons why intra-African trade is no more than one-tenth of the entire trade of the continent.<sup>3</sup> The urbanisation in recent decades has steeply raised the demand for food in cities, which also necessitates a greater flow of goods within the national economies.

The building of the infrastructure in the new conditions is aimed above all at extending inter-regional economic ties, which promote and accelerate the formation of a home market. Expansion of the transport system increases the ties of the countryside with the market and promotes the disintegration of the natural economy. Reconstruction of the agricultural sector largely depends on transport development.

In view of the general low economic level difficulties in making related investments are particularly great. They are dictated by the need simultaneously to open up new territories, build a transport network, and so on. Poor co-ordination of different types of construction and the lack of facilities in economically related spheres are explained in large measure by the shortage of capital investments and the difficulties of planning in conditions of economic backwardness. A situation is not infrequent where the built capacities of the infrastructure are not utilised because the related spheres of the economy are not ready. Thus, the

<sup>1</sup> Report of the ECA Mission on Economic Cooperation in Central Africa, New York, 1966, p. 75.

<sup>2</sup> See *Stroitelstvo natsionalnoi ekonomiki v stranakh Afriki* (The Building of a National Economy in African Countries), Moscow, 1968, p. 80.

<sup>3</sup> William A. Hance, *African Economic Development*, New York, 1967, p. 21.

building of large irrigation systems under the first and second five-year plans in India did not produce a favourable effect because the system of small canals and irrigation network was in a neglected state and the peasants could not utilise the available water. That is why the share of appropriations for the local irrigation system in the third plan was increased in order to eliminate this disproportion. In a number of African countries railway construction was extended without co-ordination with the development of inland water transport, which also could not yield good results.

The predominantly agrarian nature of the economy influences the infrastructure because the demand for means of transport is subject to big seasonal fluctuations. Large transport facilities are utilised for brief periods and the rest of the time they can be used only in part. Hence the problem of co-ordinating different modes of transport with building other parts of the infrastructure—cold storages, warehouses and grain elevators. In recent years the shortage of food covered by imports has exacerbated the problem of storing and delivery to interior regions. The need to have reserve stocks of grain has also increased the demand for modern storage facilities.

The development of the economy requires not only an expansion of the infrastructure but also its qualitative change. Certain progress made in foreign trade has increased the need for transport facilities: exports have risen substantially in scale; in addition to raw materials, manufactured goods are beginning to be exported and their transportation to ports cannot be done in the old, traditional way. Imports have changed considerably—the share of goods for industrial purposes, machine tools and equipment, which require modern means of transport, has risen.

Besides serving foreign trade, the greater demand for transport and communications is also a consequence of the accelerated shaping of a home market. The increase in the volume of freight carriage can be illustrated by rail traffic.<sup>1</sup> From 1938 to 1950 rail goods carriage in Asia rose from

<sup>1</sup> It should also be noted that in a number of Asian countries (India, Burma, Indonesia and Pakistan) the railways are worn out and almost the entire rolling stock has to be replaced.

73,500 million to 115,000 million ton/kilometres, and more than trebled in the following ten years, reaching 379,000 million ton/kilometres. In subsequent years this figure continued to grow, amounting to 465,000 million ton/kilometres in 1969. For Latin American countries the respective figures were 18,600 million, 27,000 million, 31,200 million and 43,100 million ton/kilometres.<sup>1</sup>

The growth in the volume of freight carriage has led to intensive use of the available transport facilities. The commissioning of new capacities lags behind the growing needs because the reconstruction and expansion of the existing facilities demand big investments and the attraction of foreign capital in the form of equipment and materials, which creates difficulties for national governments.

In the last 100 years 80,000 kilometres of railways were built in Africa; most of them are in the Republic of South Africa, the Maghreb countries and the Arab Republic of Egypt. The most pressing needs can be satisfied by building about 2,000-3,000 kilometres. The building of one kilometre of track in Africa is estimated on the average at \$100,000.<sup>2</sup> The production of major export and food crops in many countries is located deep in the interior, which necessitates the building of railway lines over territories whose development is unrealistic at present, and this raises still higher the cost of construction and reduces its economic efficiency.

In countries where in the next few decades agriculture will preserve its positions in the economy it is no less important to build highways and country roads which are cheaper (from \$1,000 to \$10,000 per kilometre in Asian countries, depending on the district and type of road surface).<sup>3</sup> In the African continent the special climatic conditions raise the cost of construction to \$7,000-\$12,000 per kilometre of a one-lane road and up to \$78,000 for a two-lane road.<sup>4</sup> So far all-weather roads for motor traffic are the exception rather than the rule in most African countries.

W. Hance, professor of economic geography of Columbia University, in his detailed study of the economy of con-

<sup>1</sup> UN. *Statistical Yearbook 1961*, p. 332; *1971*, p. 78.

<sup>2</sup> *Industrial Development in Africa*, New York, 1966, p. 22.

<sup>3</sup> UN. *Introduction to Transport Planning*, New York, 1967, p. 41.

<sup>4</sup> UN. *Economic Survey of Latin America 1966*, p. 361.

temporary Africa states that "practically every African country has needs for new and improved roads".<sup>1</sup> In India where there are more than 500,000 villages only one out of nine has an all-weather road.<sup>2</sup> The poor provision of India's agriculture with roads is seen from the following comparison: in agriculturally advanced Western countries there are from 1.2 to 1.6 km of farm-to-market roads per one square kilometre of cultivated land, while in India there is less than 0.3 km.<sup>3</sup>

The economic results of building new transport arteries can be illustrated in the case of African countries. The cost of transporting goods from the interior to coastal areas of Northern Kenya was cut by half when it became possible to use lorries on the newly built highways. In Uganda the building of roads to cotton-producing areas has led to an increase of production by 70 per cent.<sup>4</sup> In Gabon the building of two roads with a total length of 119 km has made it possible to start timber working on an area of 500,000 hectares.<sup>5</sup> This is the more important because the country's coastal forests are practically exhausted. Studies made in North Borneo, Malaysia, showed that the building of one kilometre of highways leads to the productive use of 62 hectares of agricultural land. Cultivation of 60,000 hectares of land was started following the building of a 160-km road in Thailand.<sup>6</sup> This type of infrastructure is particularly effective in countries which have tracts suitable for farming that are unutilised owing to their remoteness and difficulties of reaching the market.

The development of transport, especially in rural areas, is a major way of expanding commodity-money relations in agriculture. As the network of highways is built up the fleet of motor vehicles increases. In 1969 there were 2,878,000 lorries in Asia (without Japan) as compared with 506,000 in 1953; in South America the respective figures were

<sup>1</sup> William A. Hance, *op. cit.*, p. 293.

<sup>2</sup> Wilfred Owen, *Transport and Communication in India's Development*, Washington, 1968, p. 2.

<sup>3</sup> *Ibid.*, p. 3.

<sup>4</sup> *Transport and Communications Bulletin for Asia and the Far East* No. 43, New York, 1968, p. 11.

<sup>5</sup> *New Africa* No. 1-2, London, 1969, p. VI.

<sup>6</sup> UN. *Introduction to Transport Planning*, pp. 42, 44.

2,390,000 and 820,000; and in Africa (without the Republic of South Africa) 790,000 and 325,000.<sup>1</sup>

Other modes of transport are also undergoing development. Thus, the merchant fleet of India had a displacement of 1,870,000 tons in 1967 as compared with 390,000 tons in 1950. Pakistan<sup>2</sup> almost quadrupled her merchant marine in ten years.<sup>3</sup> Air transport is swiftly expanding, especially in Africa, above all, on account of increased freight traffic. Between 1953 and 1969 the volume of freight carriage increased from 20.2 million to 172.8 million ton/kilometres (without the Republic of South Africa).<sup>4</sup> In world air transport Africa accounted for only 2.3 per cent at the beginning of the 1960s.<sup>5</sup> In view of the irregularity of traffic the cost is higher than the world average: 50.1 cents per unit as compared with 38.6 cents.<sup>6</sup> The use of air transport for goods carriage is also increasing in Asia—from 57.9 million ton/kilometres in 1953 to 478.2 million ton/kilometres in 1969. In Latin American countries air-borne goods carriage approximately trebled during the same years.<sup>7</sup> The development of river transport is of no less importance for Africa as a whole and also for many Asian countries (for example, Burma).

In all developing countries transport and communications hold an important place in the long-term development plans and they account for a big percentage of investments and government spending. This is one of the reasons for the stable growth of this sector (1963 = 100): 1950, 47; 1960, 85; 1966, 118; 1968, 130.<sup>8</sup>

So far the share of developing countries in marine transport is insignificant. In 1967 they accounted for only 6.8 per cent of the world tonnage (Africa 0.4 per cent, Latin America 2.5 per cent and Asia 3.9 per cent). Considering the importance of foreign trade in the economy of developing countries, these figures reveal one more form of their preserved dependence on the world capitalist economy. A

<sup>1</sup> Calculated from: UN. *Statistical Yearbook 1971*, pp. 422, 426.

<sup>2</sup> Here and elsewhere prior to the secession of Bangladesh.

<sup>3</sup> *South and South-East Asia*, London, 1968, p. 10.

<sup>4</sup> UN. *Statistical Yearbook 1971*, p. 452.

<sup>5</sup> UN. *A Survey of Economic Conditions in Africa, 1960-1964*, New York, 1968, p. 125.

<sup>6</sup> *Ibid.*, p. 124.

<sup>7</sup> UN. *Statistical Yearbook 1971*, p. 455.

<sup>8</sup> UN. *Yearbook of National Accounts Statistics*, 1969, p. 160.

big increase in the tonnage of sea-going vessels is not feasible in the near future because their purchase is beyond the strength of most countries with their strained financial resources. As for building new ships, only the biggest countries (India, Brazil) are able to develop national shipbuilding.

Since the maintenance of the transport network in conditions of the tropical climate, monsoons and sharp temperature fluctuations is expensive, its use to optimal capacity is a very acute problem in building new transport facilities (it has been estimated, for example, that a railway operates productively in African conditions if its annual load reaches 50,000 tons).<sup>1</sup> The agricultural orientation of the economy inevitably leads to the seasonal nature in goods and passenger traffic. If the infrastructure is not utilised efficiently there is an increase of inflationary tendencies in the economy, which inevitably arise in view of the big investments that do not yield a swift return (transport is one of the most capital-intensive sectors). The way to counteract it is to build up new industries not linked directly with the processing of agricultural raw materials. On the other hand, the advantages of modern mass production can be utilised only if there are developed transport facilities which make possible the unhindered and swift carriage of the produced goods.

The building of the transport network, stepped up after the gaining of independence, nevertheless lags behind the growth rates of new and major sectors of the infrastructure—electric power and gas. If we compare the index of growth of these sectors with that of the gross domestic product (see tables on p. 45) it is clear that the production of electric power and gas is rising at higher rates.

The production of electric power in the three continents increased at a fast pace. Moreover, this sector is marked by stable, high indicators.

In some countries, especially small and the least developed, production increased ten and more times over, which is mainly explained by the exceedingly low initial level. Nevertheless this attests to important economic processes

<sup>1</sup> UN. *A Survey of Economic Conditions in Africa, 1960-1964*, p. 116.

under way which can be regarded as a preparatory stage for the reconstruction of the economy.

But the swift increase in production does not alter the fact that for per capita consumption of electric power developing countries continue greatly to lag behind the average world figure: in 1968 it amounted to 1,733 kg of coal equivalent as compared with 294 kg for Africa, 654 kg

Index of Growth of the Production of Electric Power and Gas<sup>1</sup>  
(1963=100)

	1938	1948	1958	1965	1968	1971
All developing countries of which	12	23	62	123	166	236
Latin American countries	15	29	68	122	159	221
Asian countries (exclusive of Japan)	10	16	52	128	184	267

Index of Growth of the Infrastructure Sectors and the Gross Domestic Product in Developing Countries<sup>2</sup>  
(1963=100)

	1948	1958	1965	1967	1968
Infrastructure sectors	23	62	123	149	166
Gross product	56	80	110	120	127

<sup>1</sup> *Monthly Bulletin of Statistics*, May 1969, p. XIX; May 1973, p. XIX.

<sup>2</sup> *Monthly Bulletin of Statistics*, May 1969, p. XIX; UN. *Yearbook of National Accounts Statistics 1967*, p. 819; 1969, p. 160.

	Production of Electric Power <sup>1</sup> (million kwh)					
	1948	1953	1958	1963	1966	1970
Latin America	17,900	25,400	44,300	64,500	78,600	107,600
Asia (without Japan)	22,221	29,502	69,089	103,987	147,145	237,610
Africa (exclusive of the Republic of South Africa)	4,241	—	13,567	22,632	28,642	39,220

for Latin America, 575 kg for the Middle East and 406 kg for Asia (including Japan, which substantially raises the figure). In the world balance of power consumption the share of Africa was 1.6 per cent and Latin America 2.2 per cent at the beginning of the 1960s.<sup>2</sup>

An increase in the production of electric power meets the basic requirements of the economy and above all is linked with the development of a modern industry. Both the state and private entrepreneurs are equally interested in expanding construction of this element of the infrastructure. This facilitates the increase of investments in the power utilities and will enable the sector to maintain high growth rates in future. The increase in the output of electric power in a number of countries is closely co-ordinated with the expansion of irrigation construction. In countries like India and Pakistan the building of large hydropower complexes helps to increase the production of electric power and also to extend the irrigated areas.

As industry develops the demand for electric power rises, especially in countries which are building modern large enterprises. Up to now electric power has been the basis of the power balance in most developing countries. The further development of this sector and the reduction of the cost of power (otherwise its use becomes prohibitive to

<sup>1</sup> UN. *Statistical Yearbook 1963*, p. 333, 1971, p. 349.

<sup>2</sup> UN. *Statistical Yearbook 1969*; UN. *A Survey of Economic Conditions in Africa*, p. 125.

small enterprises) require, alongside factors like financial resources and engineering and technical personnel, large-scale exploratory work to reveal and evaluate the national power potential and choose the most efficient trend of development. This will largely determine the possibilities of modern industrial construction, especially of power-consuming lines, for example, the production of aluminium. Moreover, the new sources of electric power will make it possible to start construction in relatively undeveloped areas, extending thereby the basis for reconstructing the entire national economy.

The development of all sectors of the infrastructure in the last 20 years was marked by high growth rates which, as a rule, outstrip those of the gross national product. This is a necessary prerequisite for expanding production in all sectors of the economy. There is a close connection and interdependence between building the infrastructure and industrialisation. The development of the infrastructure accelerates the drawing of traditional sectors into commodity-money relations and creates prerequisites for introducing modern production methods. On the other hand, a rise in the productivity of agriculture and expansion of the national industry and trade affect the infrastructure directly by increasing the demand for means of transport and electric power.

##### 5. SPECIFICS OF LARGE-SCALE INDUSTRIAL CONSTRUCTION

In industry, as in any other sector, the industrialisation process for its very essence is inconceivable without the introduction of new equipment. In developing countries this gives rise to one of the most intricate and difficult problems. The building of modern enterprises is based on capital-intensive equipment which is designed to increase output with a saving of labour. New enterprises of this kind increase only insignificantly the demand for manpower, and then only for manpower possessing certain skills. With the exception of the more developed countries—India, the Arab Republic of Egypt, Argentina and Brazil—most of them are unable to engage in such construction on a large scale, and the building of individual enterprises does not help to reduce unemployment. The limited demand for

manpower, especially after the enterprises are commissioned (the initial stages, linked with earth work and the erection of buildings, offer temporary employment), is a characteristic feature of modern industrial construction, making impossible the solution of the employment problem.

In the discussion of trends of industrial development, the opinion is voiced in economic writings that these countries are faced with the choice between capital-intensive and labour-intensive industries. Actually there is no such choice. An enterprise which meets modern technical requirements cannot be labour-intensive because this runs counter to technological progress. In developing countries attempts have been made to build industrial enterprises which are based on cheap obsolete equipment and employ more workers than similar enterprises having modern equipment. This way, however, has proved unacceptable because the output of these enterprises from the very outset could not compete or was not up to the required standards. Such enterprises are maintained by protectionist tariffs and cheap labour.

The utilisation of second-hand (and consequently obsolete) equipment creates big difficulties. The comparatively low price makes it accessible to small businesses. Proceeding from this the UN Industrial Development Centre recommended the use of such equipment in economically less developed countries. But the UN Economic Commission for Africa challenged the expediency of this proposal in view of the low efficacy of such equipment. The introduction of capital-intensive equipment in Africa is also determined by the fact that for the continent as a whole wages are relatively high as compared with Asia and have a tendency to rise further.

The rise in labour productivity can serve as an indirect indicator of the technical facilities of different industries. (See table on page 49.)

Proceeding from the point that the rise in labour productivity directly depends on the introduction of new equipment and this, in turn, requires improved organisation of work, it may be held that the comparatively new heavy industries are technically better equipped. The highest growth rates in labour productivity are registered in the metalworking industry where the nature of production dictates a higher level of mechanisation.

During the industrialisation of developing countries problems inevitably arise of combining capital-intensive and labour-intensive plant, new and old equipment, which are linked not only with the limited financial resources, but also, to a greater extent, with the need to provide employment. Modern equipment is used on a strictly selective basis in the sense that it is introduced in several sectors or even at individual, the biggest enterprises considered important from the viewpoint of developing the entire economy, while other industries continue to use obsolete equipment. As a result the imbalance between the new, modernised sectors and industry as a whole inevitably grows. In the last ten years output of heavy industry increased by 9 per cent annually as compared with slightly more than 5 per cent in light industry.<sup>1</sup> The changes, most pronounced in a small group of Asian and Latin American countries, are closely linked with uneven sectoral building up of industry in all developing countries.

#### Labour Productivity in Manufacturing<sup>2</sup>

(1963=100)

Year	All manufacturing	Light industry	Heavy industry	Food industry	Iron and steel industry	Petro-chemical industry
Latin America						
1955	81	89	66	101	73	67
1960	91	94	87	97	85	84
1965	105	105	107	106	111	115
1969	118	110	134	108	140	139
East and Southeast Asia (exclusive of Japan)						
1955	77	86	56	85	62	73
1960	93	97	83	91	87	86
1965	113	103	112	108	116	108
1969	151	138	180	130	201	158

<sup>1</sup> UN, *Report of the International Symposium on Industrial Development*, New York, 1969, p. 12.

<sup>2</sup> UN, *Statistical Yearbook 1969*, p. 369; 1971, p. 369.

Uneven Development of Separate Industries  
(average annual increase in 1955-66, per cent)<sup>1</sup>

	All sectors	Manufacturing industry		Food	Textiles	Chem- ical
		Light	Heavy			
Developing countries	7.0	5.4	9.3	4.9	3.9	7.9
Latin America	5.5	3.8	7.8	4.1	2.3	6.7
South and Southeast Asia	8.1	6.7	11.0	6.0	4.5	8.8

Heavy industry built up practically from scratch stands out for its growth rates. Moreover, in Latin America, where industrial development began several decades ago, the rates are lower than the average for all developing countries, and the lag is even more notable as compared with the record (11 per cent) increase for the Asian continent.

The chemical industry is among the most modern sectors as regards equipment and production methods, and everywhere it is marked by high growth rates. The textile industry, traditional for manufacturing in developing countries, has the lowest rate. This is due to several causes: the influence of import-substitution measures is being exhausted (this is distinctly felt in the Latin American region, although, on the other hand, African countries have not passed this stage yet), the possibilities of exporting textiles are quite limited owing to the competitive struggle, and the home market has a low effective demand. The swifter growth rates in industries which produce foodstuffs are directly linked to the increase of population and the urbanisation process.

The same regularity is displayed in the dynamics of development of individual countries. There is a definite difference in growth rates between traditional (textile, woodworking, clothing, food, beverages and tobacco) and new sectors, represented in most countries by metalworking, the cement, petrochemical and engineering industries. But

we should bear in mind that for some small African countries even the manufacture of textiles and food processing are new types of industrial activity.

Great unevenness is characteristic of present-day industrial development in Asia, Africa and Latin America. Qualitatively new, modern industries arise against the background of the general economic backwardness, and of industry in particular. For example, the manufacture of computers in India and Mexico is combined with the existence of textile and food factories which utilise manual labour almost exclusively.

The economy is being restructured in conditions of a low level of commodity-money relations and in the case of a number of countries also of the dominance of the natural economy. This is an obstacle to all structural changes which, in turn, influences the course and pace of the changes. The difficulties inherent in the traditional mode of production are compounded by new difficulties that cannot be avoided in trying to reshape the economic structure.

Unevenness on the scale of the entire national economy is enhanced at the present stage in most countries. This phenomenon is characteristic both of proportions between sectors and within sectors. In agriculture the disproportion between the production of exported industrial crops and food crops mounts. Under the influence of the population growth the gap widens between the needs of the national economy in food and the possibilities of agriculture to satisfy them. Agriculture does not provide an adequate raw-material base for the expansion of industry, while industry with its present structure and capacity, in turn, is unable to provide the goods needed for the technical reconstruction of this sector.

Apparently, balanced growth and the simultaneous development of all sectors of the economy cannot be practically achieved. The industrialisation process is uneven for its very essence. It is even more complicated in economically backward countries with their multi-structural economy and the intricate intertwining of socio-economic formations. This is most distinctly seen in industry, although even in this most modern sector the degree of unevenness of development differs in various sectors (industrialisation of manufacturing, for example, has advanced farther than in the extractive sector as a whole; in turn, technologically oil is produced at an entirely different, higher level as compared

<sup>1</sup> UN. *World Economic Survey 1967*, Part I, p. 61.

with coal mining; modern branches have a different technical basis than traditional; and so on).

So far most sectors of the economy are outside the bounds of modern industrial development. This applies to agriculture, the services and trade, and to a lesser extent to the infrastructure. Alongside economic causes (above all the shortage of investment resources) essential obstacles to the reconstruction of the economy are rooted in the slow pace and the inadequacy of social changes.

#### 6. SMALL-SCALE PRODUCTION IN THE INDUSTRIALISATION OF DEVELOPING COUNTRIES

Under the impact of objective economic and political factors industrial development proceeds in two opposite directions—the large-scale building, on the basis of imported equipment with the use of the latest scientific and technological achievements, in the most important industries in Department I and to a certain extent in light industry, and utmost support of small-scale production for the purpose of ensuring the manufacture of consumer goods for home consumption, partly for export and mainly for providing employment. The problem is that the definition of small-scale industry as used in international handbooks is vague and differs considerably from country to country. In Africa, establishments which employ not more than ten workers are listed under the heading of small-scale industry. In India, the industry includes establishments which have a power-driven engine and employ 10 workers or 20 workers without an engine. Small-scale and handicraft industry practically does not yield to statistics owing to its fragmentation and small output. In a number of cases these sectors link up with the village industries.

In view of the lack of statistical data it is difficult to determine with a sufficient degree of precision the share of small-scale industry in total output and, what is no less important, in employment and investments. Part of the output produced by artisans does not pass through the market at all because it satisfies a strictly local demand (for example, interior areas in African countries, Nepal, and so on).

The number of employed in this sector is estimated approximately because small-scale and especially handicraft

industries are family-run businesses which do not rely heavily on hired labour. According to approximate estimates, 32 per cent of the entire labour force in manufacturing in Africa is engaged in small-scale production. For some Latin American countries the figure reaches 60-80 per cent (Honduras, Ecuador, Haiti).<sup>1</sup> Information about the contemplated investments which could serve as an indicator of the expansion of these sectors and their technical reconstruction is contained mainly in long-term national plans but data on the actual use of earmarked government appropriations are almost completely lacking.

State support to small-scale industry is regarded as necessary in many developing countries, inasmuch as this policy meets their economic requirements, especially those which are relatively poor in minerals and have a small territory and population. Account must also be taken of the fact that the expansion of small-scale production strengthens the positions of national entrepreneurs, and this, in turn, directly affects the alignment of the class forces.

Enterprises of small-scale industry are based on local, mostly agricultural, raw materials and the sale of their output is oriented on a comparatively limited demand. The relatively low level of the required initial capital enables local entrepreneurs to set up small and handicraft establishments. This is of particular significance for developing countries which are short of investment resources, especially foreign exchange, in the form of equipment and scarce materials. The size of investment for one work place differs greatly in small- and large-scale (for example, the steel) industry. According to J. Mellor, an American economist, the respective figures are \$1,000 and \$35,000. The expansion and modernisation of small-scale and handicraft industry depends much less on foreign exchange, equipment and technical assistance. In India, for example, "the foreign-exchange component for heavy industry is about 50 per cent of total cost, and for small-scale and village industries, it still runs about 20 per cent of total cost".<sup>2</sup>

<sup>1</sup> UN. *A Survey of Economic Conditions in Africa, 1960-1964*, p. 106; *Mirovaya ekonomika i mezhdunarodniye otnosheniya* No. 4, 1969, p. 54.

<sup>2</sup> John W. Mellor, *The Economics of Agricultural Development*, New York, 1966, pp. 81, 102.

Small-scale and handicraft industries specialise, above all, in the output of consumer goods. This to a certain extent releases a country of the need to import them and saves foreign exchange. The role of these sectors in satisfying the home demand is exceedingly great. In Sri Lanka, for example, they account for about 95.7 per cent of the production of food, beverages and tobacco.<sup>1</sup>

Small-scale industry preserves, and in a number of countries increases its importance as a source of state revenue.

Income from Factory and Cottage Industries<sup>2</sup>  
(million dollars)

Country	Factory sector	Cottage sector
India		
1951	1,344	1,995
1963	3,528	1,927
Pakistan		
1951	148	318
1963	570	406
Philippines		
1953	138	216
1962	280	329

We cannot fail to notice, however, the deep contradiction of such a phenomenon as utmost support and stimulation of small-scale production in the period of the industrial reconstruction of the economy. This contradiction is felt with utmost force in the more developed Asian, African and Latin American countries where a national light industry has already been established. In India, partly in Pakistan, Brazil, Mexico, and the Arab Republic of Egypt, the output of factories, because it is cheaper, ousts small and handicraft establishments from the market and ruins them.

Since this threatens greatly to increase unemployment, governments have taken financial and legislative measures

<sup>1</sup> UN. *Small Industry Bulletin for Asia and the Far East* No. 5, New York, 1967, p. 97.

<sup>2</sup> S. Ishikawa, *Economic Development in Asian Perspective*, Tokyo, 1967, p. 360.

to protect small producers from competition. Thus, the output of large mills (yarn and fabrics) is limited so that part of the demand should be covered by small-scale industry. In Asia, small establishments produce parts of automobiles, motors, TV sets, bicycles and sewing machines for their subsequent assembly. In Africa production of this type was not successful because it requires considerable technical skills. Attempts have been made to co-ordinate the production of handicraft establishments with the output of the factory sector. This has become most widespread in India where small-scale industry is supplied through government organisations with improved raw materials, looms and spinning machines. Attempts to raise the quality of goods through these measures have not been successful, while the increase of output leads to the further drop of prices and forces small producers out of business.

Were this process to be combined with the intensive building of industrial enterprises, the small producers ousted from their business could be widely employed in the factory sector thanks to their skills. Since this does not happen the small producer faces the crucial task—to survive in the competitive struggle at any cost, which is achieved above all by speed-up and a reduction of the living standard. For considerable sections of the population the handicrafts are a subsidiary occupation to the main one, agriculture. This is especially true of groups with the lowest incomes which the crafts provide with about 40 per cent of their means of subsistence. The level of these earnings can be judged by the following data of the national surveys of India: the average monthly income of 75 per cent of the weavers in the country's rural areas did not exceed Rs. 25, whereas, even according to Indian standards, an income of Rs. 50 constitutes the poverty line.<sup>1</sup> The producers of artistic handicrafts are in a somewhat better position in most countries because this occupation requires special skills and in most countries they are designated either for export or for satisfying a narrow local, traditionally shaped demand.

The creation of what are called "industrial estates" is aimed in the first place at preserving and supporting these types of crafts. Since 1955 this policy has been actively pursued in India for two main purposes: to promote the

<sup>1</sup> Ibid., p. 412.

development of small-scale industries and to extend them to regions with a low level of industry to increase employment. In the following 12 years, "486 industrial estates" were set up with an annual output estimated at about Rs. 800 million.<sup>1</sup> Their further development must be co-ordinated with the building of the infrastructure and the general trend of the country's industrialisation. Attempts to expand output have run up against marketing difficulties because the increase of exports requires considerable investments for advertising and finding new markets and also a high quality of goods, especially considering the growing competition in the world market in this sphere among the developing countries themselves.

In conditions of the low development of the productive forces and the comparatively slow change in the economic pattern, small-scale industry maintains its positions thanks to state support and the low wages of the workers. The problem of combining labour-intensive and capital-intensive industries cannot be solved without preserving small-scale production, above all as a sphere of employment.

How to maintain the coexistence of small- and large-scale production, while building up modern industries (to a different extent, depending on the conditions of each country), remains an urgent problem of state economic policy.

## CHAPTER II

### BREAK-UP OF THE COLONIAL PATTERN OF THE ECONOMY AND THE SPECIFIC POSITION OF AGRICULTURE

The dominant position of agriculture is the determining and basic factor of the economy of developing countries. Its share in the national income ranges from 40 to 85 per cent. This sector provides employment for the overwhelming majority of the population, raw materials for light industry, goods for export and, what is most important, food for the population. Any change in this sector exerts a decisive impact on the entire economy.

A rise in the efficiency of agriculture is consequently a major part of the general economic development of Asian, African and Latin American countries. At the present stage an expansion of output in this sector largely determines the growth rates of the economy as a whole. Hence it is clear that initial structural shifts can be made only by considering the role agriculture plays in the national economy. The UNCTAD session in February 1968 pointed out in adopting a declaration on the world food problem that the rapid development of agriculture was an essential part of general economic and social advance and was interdependent with industrial development.<sup>1</sup> The lag of agriculture, which causes a slowing down of the growth rates of industry and the economy as a whole, shows that this sector is crucial for industrialisation. So far the growth rates of agriculture have been much lower than those of industry.

The exceedingly low initial level of agriculture is the reason why the influx of resources from this sector is entirely insufficient for industrial development. Moreover, agri-

<sup>1</sup> UN. *Small Industry Bulletin for Asia and the Far East* No. 6, New York, 1968, p. 85.

<sup>1</sup> See FAO. *Monthly Bulletin of Agricultural Economics and Statistics*, May 1968, p. 17.

culture itself needs large investments for its reorganisation. For a long time to come the reconstruction of the economy of developing countries can take place only by making maximum use of the possibilities of agriculture. The break-up of the existing pattern without considering this factor can only aggravate the structural imbalance of the national economy and increase its dependence on the world capitalist economy.

### 1. EXACERBATION OF THE FOOD PROBLEM

The government land reforms in Asia and Latin America (the communal landownership preserved in Tropical Africa creates specific relations) can in the most general outlines be reduced to the following measures: establishment of a landholding ceiling, redistribution of surpluses among landless peasants and legislative guarantees of the rights of land-tillers. Despite the inconsistency and limited nature of these reforms and the bitter opposition of the big landowners to their implementation, they resulted in a partial change of the agrarian system and in the shaping of new economic relations in the countryside.

Accelerated disintegration of the natural economy and the growth of specialisation are among the most important consequences of these measures. At the same time landholdings are fragmented and the number of small holdings increased. At the end of the 1960s the acreage per person employed in agriculture in economically backward countries was one-twentieth of that in developed countries, and in the Far East, one-fiftieth.<sup>1</sup> In view of the low commercialisation of agriculture this leads to a reduction in the output for the market (especially food crops). In India, for example, only 25-30 per cent of the production of food grains reaches the market<sup>2</sup>; in countries of Central Africa, from 26 to 37 per cent of the food grown in peasant farms,<sup>3</sup> and in West Africa, approximately 30 per cent.<sup>4</sup>

<sup>1</sup> UNCTAD. *The Food Problem of Developing Countries*, TD/48, p. 32.

<sup>2</sup> FAO. *The State of Food and Agriculture*, Rome, 1968, p. 44.

<sup>3</sup> *Ibid.*, p. 46.

<sup>4</sup> *Economic Survey of Africa*, New York, 1966, p. 29.

A certain increase in grain production in peasant farms is exceeded by the growth of consumption of the producers themselves. The preservation of the tendency towards self-sufficiency in peasant farms and the low degree of commercialisation show that industrialisation of agriculture, which extends and diversifies the ties of the individual producer with the market, and increases his dependence on it, is only beginning.

Alongside agrarian changes, certain techno-economic shifts emerged in the mid-1960s. Consumption of mineral fertilisers in the postwar period has nearly doubled in Southeast Asian countries and increased by 70-80 per cent in Latin America. But the swift increase in the absolute volume does not alter the fact that their use is immeasurably lower than the real needs of these countries. Consumption of fertilisers per hectare of sown area in this group is an insignificant fraction of that in developed countries (the latter account for 90 per cent of the total). In 1968-69 it amounted to 13 kg per hectare in all developing countries, including Latin America, 20 kg; the Far East (without Japan), 14 kg; and Africa, 3 kg. In developed countries the figure was 73 kg.<sup>1</sup>

Greater consumption of mineral fertilisers in small peasant farms is prevented by the high price which in most cases is explained by the fact that they have to be imported. The situation is similar as regards the use of tractors in agriculture, the number of which in developing countries rose from 197,000 in 1951 to 906,000 in 1968. But this is only 6 per cent of the total number of tractors used in world agriculture.<sup>2</sup> Notwithstanding the substantial scale of irrigation work, irrigated areas accounted for 21 per cent of all agricultural lands in Sri Lanka and Indonesia, 18 per cent in Thailand, 5 per cent in Burma, 12 per cent in the Philippines, 16 per cent in India, 3 per cent in Morocco and 15 per cent in Mexico.<sup>3</sup> In the case of grain crops the share (in per cent of all arable land) was: 10 per cent in Malaysia, 18 per cent in Sri Lanka, 31 per cent in Indonesia and 12 per cent in the Philippines.<sup>4</sup> In assessing these data it should be borne in mind that rice, the main grain crop, demands intensive irrigation.

<sup>1</sup> FAO. *The State of Food and Agriculture*, 1970, p. 29.

<sup>2</sup> *Ibid.*, p. 142.

<sup>3</sup> UN. *World Economic Survey 1968*, Part I, p. 24.

<sup>4</sup> *Economic Survey of Asia and the Far East 1967*, p. 95.

In a number of countries yields, chiefly of cereals, have essentially increased, which attests to an improvement in the conditions of agricultural production.

Considerable fluctuations in yields are observed in countries of the same continent, for example, India and Burma (rice), the Arab Republic of Egypt and Syria (wheat). The Asian continent as a whole is marked by low yields even as compared with South American and African regions. By 1968-69, new improved varieties of rice had been introduced on 5 million hectares, which is only 6 per cent of the area sown to rice in South and Southeast Asia.<sup>1</sup>

Techno-economic changes in agriculture are mainly of a quantitative nature, and they do not seriously increase labour productivity and efficiency of the sector as a whole.

The predominant position of export crops as compared with crops for home consumption, inherited from the colonial period, is preserved in agriculture. Most of the fertilisers and agricultural machines are used for the growing of export crops. In Brazil 60 per cent of the fertilisers were used in 1966 for coffee and sugar cane, in El Salvador 80 per cent for coffee and cotton, and in Honduras 90 per cent for bananas.<sup>2</sup> At the beginning of the 1960s labour productivity in export branches of agriculture of a number of Latin American countries was four to six times greater than in agricultural production for the home market.<sup>3</sup>

In view of the shortage of foreign exchange governments stimulate wherever possible the growing of export crops. The drop in prices of some agricultural commodities in the world market, which the developing countries are trying to compensate by increased sales, also impels them to expand the export sector. As a result the gap is increasing between the main branches of agriculture—the production of export crops and food, especially cereals. While the area under tea, coffee, jute and some other export crops increased on the average 15-20 per cent between 1950 and 1965, production rose by 50-70 per cent.<sup>4</sup> Tea-exporting countries increased the yield of this crop 2-4 per cent in 7-8 years.<sup>5</sup>

<sup>1</sup> FAO. *Monthly Bulletin of Agricultural Economics and Statistics*, June 1969, p. 1.

<sup>2</sup> UN. *Economic Survey of Latin America* 1966, p. 318.

<sup>3</sup> Ibid.

<sup>4</sup> Calculated according to: FAO. *World Crop Statistics*, Rome, 1966.

<sup>5</sup> FAO. *Monthly Bulletin of Agricultural Economics and Statistics*, April 1969, p. 11.

In the first half of the 1960s the production of food in the African continent went up 8.9 per cent, and of non-food crops trebled.<sup>1</sup>

While exports of agricultural commodities increased mainly by raising the efficiency of production, expansion in the grain harvests from the beginning of the 1950s to the mid-1960s was of an extensive nature. In Latin America, Africa and the Middle East more than half and in the Far East 40 per cent of the increment was obtained by the cultivation of new lands. True, in a number of cases the use of new lands became possible because of the employment of new machinery, but this source of increasing output is about to be exhausted.<sup>2</sup>

Expansion of the cultivated area, an increase in irrigated lands and greater use of machinery and fertilisers show that some progressive technical shifts are under way in agriculture. But the lag of this sector is so great that the scope of these changes is inadequate to meet the needs of agriculture. This is most strikingly displayed in the worsening of the food situation. Between 1953 and 1963 the annual increase in the production of cereals lagged behind the growth of total agricultural output in all developing countries. Some of these changes took place at the beginning of the 1960s, and according to FAO estimates, food production will exceed the growth rate of agriculture as a whole by 1975.<sup>3</sup> The biggest lag in the production of food is registered in Africa and Latin America. Of the 25 countries surveyed by FAO experts only in 10 was the demand for food satisfied by local production. In the biggest countries of the three continents internal production in the mid-1960s amounted to 94 per cent of consumption in India, 87 per cent in Brazil, 92 per cent in Pakistan, and 70 per cent in the Arab Republic of Egypt. For a number of countries this indicator is even lower. Thus Colombia grows only 27 per cent of the wheat she needs, Ecuador 58 per cent, the Lebanon and Libya 20 per cent, Sudan 31 per cent and India 56 per cent.<sup>4</sup> The fact that these countries in order to cover the food shortage

<sup>1</sup> UN. *A Survey of Economic Conditions in Africa 1960-1964*, p. 59.

<sup>2</sup> UNCTAD. *The Food Problem of Developing Countries*, TD/48, p. 13.

<sup>3</sup> Agricultural Commodities Projections for 1975, Vol. I, Rome, 1967, p. 49.

<sup>4</sup> UN. *Statistical Yearbook 1969*, pp. 468-74.

have to import the cereals they themselves grow emphasises the weakness of their agrarian basis and its non-conformity to the needs of economic development.

The excess of the internal demand for food over production which arose in the last 20 years and the tendency of this gap to widen are one of the main reasons for the intensified inflationary trends.

In countries with a low per capita income where most of it is spent for food, the steady rise in food prices, caused by its shortage, further narrows the possibilities of internal accumulation and the volume of productive investments. Thus two-thirds of the rural population in Latin America confine their purchases almost exclusively to foodstuffs.<sup>1</sup> This directly leads to exceedingly slow expansion of the demand for manufactured goods.

In a number of countries agricultural production practically did not increase in the postwar period (Iraq, Argentina, Indonesia) and in some it even dropped (Uruguay, Algeria). In 40 developing countries agricultural output lags behind the growth of population. A group of countries steadily imports food—India, Pakistan, the Arab Republic of Egypt, Chile and Iraq. On the whole developing countries are now cereal importers in the world market; in the mid-1960s cereals accounted for 60 per cent of all their food imports.<sup>2</sup> Between 1955-56 and 1967-68 imports by these countries rose from 15.7 million to 34.3 million tons.<sup>3</sup> During the same time their agricultural exports rose only by 50 per cent in volume, while in value, because of the unfavourable relationship of world prices, they grew only by 30 per cent.<sup>4</sup>

A real danger has arisen that if the present trend in the population growth continues all the main resources of some countries would have to be mobilised to pay for food imports. The possible increase of its cost should also be considered. Against the background of a general tendency of decreasing export prices of agricultural raw materials wheat, rice and maize were the exception in the last six-eight years

<sup>1</sup> UN. *Economic Survey of Latin America 1966*, p. 365.

<sup>2</sup> FAO. *Monthly Bulletin of Agricultural Economics and Statistics*, May 1968, p. 7.

<sup>3</sup> Calculated from: FAO. *Commodity Review and Outlook 1968-1969*, Rome, 1969, pp. 24, 27, 32.

<sup>4</sup> FAO. *Monthly Bulletin of Agricultural Economics and Statistics*, May 1968, pp. 7, 9.

because the shortage of grain sent up their prices by 10-15 per cent.<sup>1</sup> The possibilities of a country to import goods for production purposes largely depend on how the food requirements are satisfied by its own agriculture. According to FAO estimates, in 1975 developing countries will have to spend \$7,200 million on food imports.<sup>2</sup> According to preliminary estimates, based on an extrapolation of existing trends in agriculture, cereal imports will be maintained at a high level in the next few years even if the biggest developing countries are not hit by drought, floods, or other natural calamities.

Despite imports the consumption of grain remains insufficient as compared with the necessary minimum.

Per Capita Availability of Grains in Developing Countries<sup>3</sup>  
(kg)

	1959/61	1964/65	1970 (estimate)	Minimum require- ment
Developing countries of which	170	176	179	188
India	159	168	170	186
Pakistan	180	172	176	196

According to FAO, in most Asian and African countries, the calory content of the diet of the bulk of the population is 1,000 units below the necessary minimum.<sup>4</sup> One-third of the population of developing countries suffers from protein malnutrition. This directly affects the reconstruction of the economy because the new industries and modern equipment place a bigger load on the worker. When the diet of the main mass of the population is constantly below the physiological norm manpower cannot meet the changed requirements of society and a rise in labour productivity becomes difficult.

<sup>1</sup> UN. *World Economic Survey 1967*, Part I, p. 179.

<sup>2</sup> *World Food Situation. Prospects for World Grain Production, Consumption, and Trade*, US Department of Agriculture, Washington, 1967, p. 20.

<sup>3</sup> Ibid., p. 13.

<sup>4</sup> UN. *World Economic Survey 1968*, Part I, p. 5.

The growing exacerbation of the food problem limits the possibilities of building up and extending new sectors of the economy. The need to spend foreign exchange for buying food reduces the possibility of importing goods required to build up the national industry and to industrialise. The continuous importation of food, absorbing a substantial part of the national resources, has become another way of paying for economic backwardness. From a specific problem it has turned into a factor which affects the entire course of economic development of newly free countries. Since developed capitalist countries are the main suppliers of food, the dependence of developing countries on the capitalist economy acquires new forms and is increasing. The food-exporting countries gain additional opportunities to influence the economic development and the economic policy of Asian, African and Latin American governments. That is why the choice of the way of development by many countries of the three continents depends on the solution of the food problem in the next 10-20 years.

## 2. CHANGES IN THE FOOD BALANCE UNDER THE INFLUENCE OF DEMOGRAPHIC SHIFTS

The population explosion in the developing countries is the most obvious reason for the sharp deterioration of the food situation since the end of the 1950s. The annual population increase, which recently fluctuated around 2 per cent, is drawing near to 3 per cent in many countries.<sup>1</sup> Although the problem of family planning has long been in the centre of attention of governments and a number of international organisations, the force of tradition and the way of life is so strong that it is difficult to expect a swift reduction of population growth rates in the developing countries. The rapid population increase must be regarded as a long-term factor of the economic and social development of these countries.

Considerable changes in the composition of the population and a steep rise in urbanisation are also tending to worsen the food situation. Between 1950 and 1960 the urban population of Africa and Latin America increased by 69 per cent,

<sup>1</sup> UN. *World Economic Survey 1968*, Part I, p. 8.

mainly on account of migration from rural areas to towns and from small towns to the major industrial and commercial centres. Every year not less than two million people move to towns in Latin America where the increase in the urban population amounts to 5 per cent annually.<sup>2</sup> In North Africa cities with a population of more than 100,000 make up almost one-fifth of all the cities. Their population rises by three million annually, primarily on account of the influx from the villages.<sup>3</sup>

A number of capitals in developing countries are turning into very large cities where a considerable part of the entire population is concentrated. For example, 20 per cent of the total population lives in Baghdad, more than 50 per cent in Tripoli, Abidjan and Lomé,<sup>4</sup> 14 per cent in Annan, about one-third in Beirut and three-fourths in Kuwait.<sup>4</sup>

The rate of urbanisation varies between continents and between countries. At the end of the 1960s the urban population of Latin America exceeded the rural population, while in Asia it reached only 22 per cent of the total and in Africa 19 per cent.<sup>5</sup> In Tunisia, Chile, the Arab Republic of Egypt, El Salvador, Mexico, Peru, Malaysia, Iraq, and some other countries the proportion of the urban population exceeded 30 per cent. For Nepal, Pakistan, Burma, Sri Lanka, Haiti, Sudan and Nigeria the figure ranges from 10 to 15 per cent. According to FAO forecasts, in the next several decades the urban population will increase at a fast pace.

The share of the urban population is growing, while agriculture remains the main sector of employment, which gives rise to new social and economic problems. Urbanisation substantially increases the demand for food and changes the pattern of demand under the influence of new habits and goods (chiefly imported). What makes urbanisation in economically backward countries a difficult problem is that this process is little connected with the growth rates of the

<sup>1</sup> UN. *Economic Survey of Latin America 1966*, pp. 311, 326.

<sup>2</sup> UN. *A Survey of Economic Conditions in Africa 1960-1964*, p. 175.

<sup>3</sup> Ibid.

<sup>4</sup> *Studies on Selected Development Problems in Various Countries in the Middle East*, New York, 1967, pp. 33-34.

<sup>5</sup> See *Mirovaya ekonomika i mezhdunarodniye otnosheniya* No. 4, 1969, p. 55; *Narodnoye khozyaistvo SSSR v 1967 g.* (National Economy of the USSR in 1967), Moscow, 1968, p. 899.

economy, particularly industry, and that it takes place spontaneously, without any control or regulation by the government. But neither the city nor industry needs such a number of workers. As a result the pressure on the labour market increases and a reduction of wages becomes possible.

The swift pace of urbanisation characteristic of developing countries shows that the immobility of traditional society has been undermined to a considerable degree. The availability of free working hands which can be employed in any sector of the economy creates favourable conditions for new construction, and in this context urbanisation creates the possibilities of industrialisation on the scale of the entire economy.

The food balance is also changed by the essential shifts in the age composition of the population. The increase in the share of the population under 15 years (from 38 to 51 per cent of the population in most African countries<sup>1</sup>) sends up the demand for food while the ability to pay for it decreases. On the other hand, the growth of this group means that in the coming years the share of the able-bodied population which cannot find employment will rise sharply and the rate of migration will increase.

Since the influx into the cities does not imply the use of this manpower in the productive sphere, the logical result is a steep increase of unemployment which previously existed, partly in a hidden form, in agriculture. In countries like India and Burma unemployment grows twice as fast as the population. This adversely affects the composition of the effective demand.

Demographic shifts in recent decades have exerted a deep impact on the entire complex of socio-economic problems in developing countries. Factors like the growth of population and high urbanisation rates have made the vast lag of agriculture particularly evident. The shortage of food, rise of unemployment in all its forms, particularly among young people, the concentration of the jobless population in cities—all these are manifestations of the gap between the needs of economic development and the existing pattern of the economy, which does not ensure the possibility of development. Since agriculture remains the basic sector,

<sup>1</sup> UN. *A Survey of Economic Conditions in Africa 1960-1961*, p. 51.

this discrepancy makes itself felt especially in its lag and slow growth rate of output. A reconstruction of the agricultural sector, designed above all to raise its efficiency, has become an objective necessity.

Diversification of agriculture, combined with preserving the cultivation of leading export crops, helps industrialise the economy. In countries with a distinctly pronounced agricultural specialisation, the increased local production of foodstuffs makes it possible to reduce the expenditure of foreign exchange for food imports and to release resources for the purchase of goods for productive purposes. The same is true of the introduction of new tropical crops designated for export, which increases foreign exchange receipts and thereby extends the possibilities of industrial construction. The growing of industrial crops stimulates the establishment of local processing factories. In a number of developing countries the expansion of food output for home consumption by itself represents a diversification of the existing agrarian pattern and helps to raise the efficiency of the national economy as a whole. Many African countries with a high degree of specialisation in export crops are trying to extend peasant production of food crops and raise their output for the market. Government programmes in India, Sri Lanka and Indonesia provide for the introduction of improved methods of cultivation in order to increase the grain harvest in the first place.

While until recently agriculture in most countries developed extensively, mainly through the ploughing up of new areas, now a definite turn towards intensification has emerged. An increase in output per unit of land is becoming a major task. More intensive use of modern methods and equipment has begun in a number of countries. This applies in the first place to comprehensive programmes which include the use of improved varieties of seed, fertiliser and farm machinery on large areas. These programmes of grain growing are implemented in India, Pakistan, the Philippines, Sri Lanka and Indonesia with the active co-operation of their governments. Their implementation has to a certain extent been prepared by national governments building the infrastructure (irrigation systems) in the 1950s.

Measures for the diversification of agriculture in no way imply renunciation of the growing of export crops in which a country has specialised for a long time. To this day these

crops remain the main source of foreign exchange, and apparently in the next 10-20 years this situation will not change appreciably for the main group of countries. Preservation of a big output of traditional crops and their exportation remain a requisite for expanding imports, which to a certain degree restrains the growth of inflation.

A purely quantitative increase in agricultural exports holds little promise because in conditions of an insignificant rise in demand it tends to reduce world prices. The growing competition of man-made materials also tends to reduce prices.

Attempts to diversify agriculture by growing new export crops offer a certain guarantee of stabilising foreign exchange receipts because a sharp drop in world prices of some commodities may be compensated for by others. But it should be borne in mind that the introduction of new crops designated for export requires special skills in their cultivation, considerable investments and the use of high-quality seeds. This is a time-consuming process because a number of crops begin to yield only after a certain period (tea, rubber, coffee and cacao). Diversification of this kind does not offer a fundamental solution: the dependence of the economy on the export of one or two commodities cannot be abolished even if their number goes up to three or four. Nevertheless this diversification trend produces a definite economic effect, especially in countries which are poor in mineral resources. The introduction of cotton has had a positive effect in countries like Cameroun, the Ivory Coast and Niger. Plantations of coffee, citrus fruits and cashew nuts have been set up in newly developed areas. The extension of tea plantations in East African countries enabled them to increase their share in world tea exports from 3 per cent in 1961 to 9.8 per cent in 1966,<sup>1</sup> pushing back such traditional exporters as India and Sri Lanka. An increase in the production of an export crop does not always improve its market prospects because in most cases it encounters competition of other economically backward countries.

Diversification of agriculture in developing countries is closely linked with changes dictated by the world market and the course of the scientific and technological revolution in developed countries. To a certain extent the introduction

of new industrial crops by developing countries is an effort to offset the decrease of the demand for traditional goods on the part of industrial countries. Although this cannot abolish their dependence on the world market, it is weakened to a certain extent because the sale of several export commodities makes the economy more flexible. At the same time the extension of the raw material basis, which is one of the generally accepted trends in agricultural diversification, is closely connected with the building up of a national industry. The growing of industrial crops reduces dependence on raw material imports. Diversification of agriculture through the introduction of new industrial and food crops destroys the natural economy still further and extends money relations by ousting the traditional forms. As a result more favourable conditions are created for the development of a national industry through the saving in foreign exchange and the building of factories producing consumer goods.

<sup>1</sup> *AICC Economic Review*, August 15, 1968, p. 29.

The entire history of the independent development of Asian, African and Latin American countries conclusively demonstrates that economic backwardness can be eliminated only if the economic functions of the state are substantially extended. Recent years have almost everywhere witnessed an enhancement of the role of the state in mobilising and allocating a country's resources, formulating a general strategy of economic growth and solving many problems inherited from colonialism. The overwhelming majority of developing countries are elaborating and in a different measure are implementing development plans and programmes, in which questions of industrialisation hold the central place.

#### 1. INDUSTRIALISATION AND EXTENSION OF THE STATE'S ECONOMIC FUNCTIONS

The need for broadening the economic functions of the state, specifically planning the industrialisation of economically backward countries, is dictated not by the high development level of their productive forces or the attained degree of production socialisation. Today these factors cannot yet play a decisive part, although from the viewpoint of future prospects the nature of the contemporary productive forces is an important argument in favour of introducing the planning element in a national economy. Extension of the state's economic functions and national planning are needed in developing countries in the first place to accomplish the tasks which arise in the course of their efforts to eliminate

economic backwardness, gradually introduce modern production methods, establish new relations of production, and ensure economic independence.

This above all is a struggle against the disastrous influence of the world capitalist market and for the attainment of an equal position in the international division of labour. Ultimately, as pointed out earlier, this task can be achieved only by thoroughly remaking the entire socio-economic structure. But in the early stages it is important (from the viewpoint of both the struggle against imperialism and the creation of prerequisites for transforming the pattern of the national economy) to carry out various administrative and economic measures in regulating foreign trade, the monetary and financial sphere, the activity of foreign companies, and so on.

Among the internal problems prime significance attaches to seeking and mobilising the available manpower, natural, production, financial and other resources, which are scattered and scarce in Asian, African and Latin American countries.

State appropriations for economic purposes are swiftly increasing: enterprises of the public sector are being built with budgetary funds and credits are extended to the private sector. But the objective needs of developing countries demand the further mobilisation of a country's resources by the state. The accumulation of foreign exchange is a particularly difficult problem for many countries.

The need for expanding the economic activity of the state and drawing up development plans and programmes is also dictated by the task of ensuring the most rational use of the mobilised resources both from the viewpoint of the current reproduction process and of the general prospects of industrialisation and the break-up of the national economic pattern inherited from colonialism. A twofold problem arises: on the one hand, it is necessary to define the criteria which make it possible to establish the most rational scope, trend and form of industrialisation and, on the other, to create the most efficient economic mechanism for carrying out the urgent reconstruction.

Modern production presupposes an up-to-date pattern of the economy with its numerous reciprocally supplementary sectors and high concentration and specialisation of production. In the imperialist states of Western Europe and the United States (inasmuch as, historically, they developed as

economically advanced countries) such a pattern was shaped gradually by numerous partial structural shifts as scientific and technological discoveries were made and applied in industry. Today the conditions are different. A tremendous store of scientific and technological know-how has been accumulated, advanced production methods have been devised, there is extensive historical experience of social development and the Marxist-Leninist theory of social development has been elaborated and tested in practice. A powerful socialist system exists in the world and it is exerting a profound impact on all world events.

In these conditions new tasks face the developing countries, namely, to utilise the available scientific and technological achievements and historical experience for the early elimination of their economic backwardness. Application of the experience of other countries is a formidable task because it is necessary to effectuate in a historically brief period considerable shifts and changes in the entire socio-economic structure of society. It goes without saying that this entails unprecedented difficulties and the solution of many entirely new problems.

Industrialisation and the elimination of economic backwardness presuppose not only the solution of intricate problems and deep shifts in all spheres of life in brief periods. Alongside this, there is an urgent necessity for dovetailing and co-ordinating many swift processes and ensure proportionality of development. This is a task, new in many respects, which dictates the need for the conscious, purposeful guidance of the entire development process.

In the course of historical development different spheres of activity arise—power, transport, education, and others—in which investments are recouped very slowly, but which are essential for economic progress. The insufficient development of the transport system and the power industry and the shortage of personnel may in future, too, make it inexpedient and unprofitable to build big modern enterprises, impel a country to set up many scattered, small, backward enterprises, in other words, undermine the foundation of further development. On the other hand, the excessive development of these spheres involves the freezing of large resources, a reduction of the output-capital ratio and lengthens the recoupment period. The rational scale of different spheres of the economy and their interaction can only be

determined by taking into account the prospects of national economic development as a whole in statewide planning.

In other words, the industrialisation process and the attendant change of the national economic pattern of West European countries and the United States could in the past have been effected on the basis of the spontaneous operation of the market mechanism (at the price of a huge waste of resources, numerous bankruptcies, cyclical crises and mass poverty). But this mechanism is incapable of becoming the determining factor in solving the considerably more involved problems of developing countries, for making urgent deep structural shifts and co-ordinating economic and social processes. An objective necessity exists for the purposeful consciously regulated process of eliminating economic backwardness and planning socio-economic development in Asian, African and Latin American countries. That this necessity is recognised is seen in the swift enhancement of the economic role of the state, specifically in the formulation and implementation of development plans and programmes.

The need for extending the economic functions of the state, in particular for introducing national economic planning, is also caused by the fact that in view of the continued economic backwardness of developing countries they constantly have to choose between different alternatives, to make difficult political and economic decisions both in the case of major questions of charting the socio-economic ways of further development and of numerous specific problems.

Frequently this is a very hard choice because there is a deep gap between the objective needs and requirements of these countries, on the one hand, and their real possibilities, on the other. To eliminate the heritage of colonialism, young states have to break up the former pattern of the economy and simultaneously build up their own industrial basis, to transform agrarian relations and expand agricultural output, lessen the one-sided export dependence, raise the living standards of the population, and so on.

The limited possibilities, the unequal, dependent position in the world capitalist economy, the grip of archaic production relations, the low accumulation rate, the absence of modern production facilities and the acute shortage of skilled labour are constantly compelling the developing countries to decide what problems must be solved and in what sequence and which of them must be left outstanding for the time being.

Many of these countries are also faced with the fact that the introduction of modern production methods and the establishment of new relations of production cannot proceed simultaneously and evenly in all sectors of the national economy, in all regions of a country. These problems are especially accentuated by the contemporary scientific and technological revolution. The building of enterprises measuring up to the present level of science and technology requires an essential redistribution of the national income, the mobilisation of resources in all spheres in order to spurt ahead in one or another sector. For an economically backward country this question is much more acute than for a developed state. At the same time the economically more advanced sections, once they are built up, are objectively in a privileged position. In future, as the scientific and technological revolution advances, this problem, far from disappearing, will become even more acute.

Depending on the concrete socio-economic conditions, this unevenness in development may promote the emergence of different forms of exploiting relations. Such a tendency is especially displayed in countries which follow the capitalist path. The newly built modern industrial enterprises, having as a rule lower production costs, are in a more advantageous competitive position and can easily capture a considerable part of the local market. The development of new regions or the building up of new sectors is often linked with big state subsidies, profitable orders and other privileges. Numerous examples show that uneven economic development opens up many loopholes for the capture of a privileged position and for the establishment of exploiting relations.

Countries which follow the non-capitalist path are taking serious measures for counteracting the adverse consequences of uneven economic and social development. But there, too, similar processes take place, although on a smaller scale and in different forms.

In planning it is often necessary to choose between mutually exclusive alternatives or determine the relationship and forms of harmonising different tendencies. But in developing countries (especially in the least developed) these problems acquire a particularly big scale, acuteness and intricacy. This is a result of the fact that almost half of mankind has been stirred into action and therefore many questions which the imperialist states, at the initial stages of

their development, could solve partly at the expense of other countries (accumulation of capital, supply of food, and so on) must now be solved in a new way. The existing mechanism of international economic relations, which in the past centuries promoted the development of individual states that advanced to the fore, now complicates the solution of the problems facing backward countries. The shaping of the motive forces of social development, of class consciousness and other questions arise now in an entirely new way.

In these conditions the swift population growth greatly exacerbates the problems of developing countries. The impact of this factor can be illustrated by the following calculation. If we proceed from the existing annual growth rate of the national income in these countries, a 1-per cent population increase would mean that only one-fifth of the increased national income must go for satisfying the needs of the bigger population, while more than four-fifths could be utilised either for expanding the accumulation fund or for improving the people's welfare. With an annual population increase of 2.5 per cent more than three-fifths of the increment in the national income must be utilised for satisfying the needs of the larger population and less than two-fifths remains for increasing the accumulation fund or raising the living standard. In many countries (especially in Asia where the land hunger is particularly acute) the rapid growth of the population swells the huge number of partly or fully unemployed. Moreover, the scientific and technological revolution increases the investments needed for creating one new work place equipped with modern machinery.

So far the scarcity of internal resources resulted in that industry increasing annually by 7-8 per cent could absorb only 20 per cent of the increase in the economically active population.<sup>1</sup> It is clear that in many cases the very acute problem of employment cannot be solved only through accelerated industrialisation. At the same time the means used for increasing employment in most Asian, African and Latin American countries (expansion of craft production, restriction of the right to dismiss workers when introducing new equipment, inflating the staff of ancillary workers, and so on) involve a decrease in labour productivity and respec-

<sup>1</sup> UN. *Industrial Development: Problems and Issues* (E.C. 5/75, 1965), p. 5; UN. *Statistical Yearbook 1967*; ILO. *Yearbook of Labour Statistics 1967*.

tively a drop in the profitability of production and worsening the competitiveness of the respective goods in foreign markets.

Here too, of course, it is possible to find new forms for mitigating, to a certain extent, the acute and intricate nature of the choice. It is possible even within the bounds of one enterprise to combine the introduction of modern machinery at sections where substantial investments are made with the wide use of manual labour at other sections. In many countries, especially African, what are known as labour investments have become widespread, that is, direct labour inputs with the use of the most primitive implements for building roads, clearing land and other measures which extend the productive capacities of a country (in conditions where the primitive methods almost do not influence economic efficiency and profitability).

The search of such solutions is of considerable importance for developing countries. But the scope of such solutions is very limited and they cannot remove the necessity of a hard choice between a growth of labour productivity and a decrease of unemployment, between an increase in the accumulation fund and the expansion of the consumption fund. What is most important is that both the search of new solutions and the choice between alternatives are increasingly becoming general tasks of the state.

As Asian, African and Latin American countries develop they increasingly face the fact that what is important for them is not so much a partial solution at an individual section as the settlement of questions on the scale of the entire national economy. A decrease of unemployment at one section by means which lead to its swift growth in another does not solve the national economic problem as a whole. This factor makes a deep imprint on the industrialisation strategy elaborated in different countries the nature of which is determined not only by the scale of unemployment as such, but also by many other factors (a country's development level, the size of the accumulation fund, the initial pattern of the national economy and others). At a quite early stage of development economically backward countries run up against the objective need of determining national economic proportions, attaching ever greater significance to the relationship between the accumulation fund and the consumption fund, between different sectors of the economy, the

interaction of labour productivity and employment, the ratio between the effective demand and the volume of consumer goods and services, and so on.

The choice of the development strategy, specifically industrialisation, is an intricate process which requires not only a detailed analysis of diverse trends in the national economy as a whole, but also consideration of tendencies of both economic and social development, their interaction and at times contradictions. It is clear that there is no "single", "universal" solution. A proper approach is arrived at only on the basis of a most thorough examination of the concrete conditions. And since a simultaneous and complete solution of major problems in brief periods is impossible, the need arises for setting a sequence by stages and in parts, to decide what problems and to what extent will be left unsolved at a given stage. This, in turn, demands very flexible forms and methods of planning and a correct system of criteria and planning evaluations.

The very specifics of industrialisation compel developing countries to invest big resources into sectors which do not yield a swift return: education, the health services, transport system, power industry, and so on. A necessity also arises for investments with a long recoupment period for building up big industrial complexes and capital-intensive industries, opening up economically more backward regions, and so on. The scale of investments can be determined only on the basis of a general examination of a country's resources and needs from the viewpoint of their national economic significance. In other words, objective circumstances often compel a state to digress from the demands of current profitability both in planning calculations and in the daily operation of enterprises.

But there are reasons which greatly limit the possibility of deviating from the principle of current profitability and make it necessary painstakingly to calculate what part of the investments must ensure an immediate return and what part could be channelled into projects with a longer recoupment period. The interests of swifter development dictate the accelerated growth of the accumulation fund, which, in turn, presupposes the utmost increase in the number of enterprises which yield an immediate economic return. The building of such enterprises is also dictated by the need to ensure the competitive position of export sectors in the world

markets; this is particularly important for countries with a one-sided foreign trade orientation.

The question of criteria in planning calculations is by no means reduced to valuating the economically more profitable alternative of development. Developing countries often face all kinds of contradictions between the need of solving intricate social problems and the current efficiency of the national economy. The methods by which Asian, African and Latin American countries resolve such conflicts and determine the general strategy of development, in particular the forms and methods of industrialisation, so far cannot lay claim to sufficient optimality under the existing conditions. In fact, the question is decided either by "shifting" the burden of solution to the spontaneous market mechanism or by disjointed political and economic measures which reflect the alignment of political and social forces existing in a country and the dominant socio-economic doctrines.

The idea of using econometric models for analysing the economy of Asian, African and Latin American countries has spread considerably in recent years. Such works undoubtedly are of certain theoretical interest and help better to understand the intricate processes under way in developing countries. But their practical significance for planning, apparently for a long time, will be very limited, especially as regards a macro-economic analysis.

The use of modern econometric methods in developing countries runs up against substantial difficulties. It is necessary to elaborate more detailed econometric methods of analysis which take into account the specifics of a multistructural and technically exceedingly heterogeneous society. Moreover, the collection of statistical and other material even for an ordinary economic analysis, not to speak of a detailed one, involves great difficulties. The developing countries face the task of creating a mechanism of economic regulation capable of applying the findings obtained from econometric calculations, of ensuring proper national economic proportions, and so on. What is very important—and this perhaps is the most intricate task—is to adapt the results of such a quantitative analysis to the concrete situation of individual countries. There is a vast difference between a model which reflects the objective needs of independent development of a state and a model which really can be implemented, considering the diverse and very intimate intertwining of economic and

socio-political processes, the alignment of class and political forces.

All decisions made in the course of formulating and implementing development plans and programmes inevitably and very tangibly affect the vital interests of diverse sections of the population. The mobilisation of the vast resources needed for the progress of a country presupposes a considerable redistribution of resources from some sectors of the economy into others, and from some social groups to others. In these conditions the scale of the contemplated actions, the concrete nature and site of construction, the relationship of sectors, and so on, cause a sharp class and political struggle over the plans and programmes. It is particularly exacerbated and complicated by the extremely multistructural and socially heterogeneous nature of society.

One of the main features of the state's economic activity and particularly the existing forms of planning in these countries is that it is called upon not only to ensure the swift advance of the productive forces, but also to play an active part in the shaping and rooting of corresponding production and social relations. The choice of ways of further development is a very prolonged and intricate process which presupposes, on the one hand, a general growth of the productive forces and, on the other, the development of definite relations of production, the shaping of a definite socio-economic pattern. The results of this process largely depend on the changes that will take place at each stage and in each of the numerous spheres of social life—economic, political, social, cultural, and so on—specifically on the social structure which will gradually crystallise in each country.

Most plans and programmes, as a rule, do not include any all-embracing strategy for changing the class or social pattern. At best the general intention is proclaimed either of encouraging or discouraging the growth of individual groups (for example, private entrepreneurs). But objectively the actual economic measures envisaged in the plans and programmes facilitate the strengthening of some classes and social groups and the weakening of others (at times even contrary to the proclaimed general principle). The decision to develop large- or small-scale industry implies consolidating the position either of the urban proletariat or of small entrepreneurs. Giving priority to the public or the private

sector influences the relationship of forces between the working class and the bourgeoisie. The nature and depth of the stratification of the working class depend on the scale of training skilled personnel and even on the level of the minimum wage.

Moreover, the concepts of socio-economic development underlying the plans and programmes exert a direct influence on the shaping of the class consciousness and ideology of different strata of society.

Thus, planning turns into an important part of the struggle over the ways of further development. The specificity of the present stage consists in that this struggle is not confined to general principles but is more frequently waged over concrete measures which determine a country's future socio-economic pattern.

Development plans and programmes are, as it were, the result of keen political struggle and serve as an important indicator of the relationship of political and class forces in a country. The basic principles and concrete measures incorporated in plans and programmes may be regarded as an embodiment of the concepts concerning the socio-economic ways of development prevailing in a country.

In some countries main emphasis is laid on eradicating the colonial heritage, abolishing archaic production relations and achieving economic independence. Correspondingly, special attention is paid to expanding the public sector, building up national industry, carrying out a land reform and breaking the grip of the imperialist monopolies. In other states paramount significance attaches to measures paving the way to local private enterprise. Within these bounds it is envisaged to effect partial land reforms and develop in the public sector only some industries, in the first place the infrastructure. In a number of countries the struggle of rival political forces is by far not completed and even the main principles underlying plans and programmes (not to mention concrete measures) are of an especially eclectic, inconsistent nature.

Thus, the main concept of economic development, in particular industrialisation, is elaborated in different countries through the interaction of numerous economic, political, social and other factors. In many cases it is not yet fully formulated and still exists as a number of unco-ordinated propositions. But the existing concepts and programmes

determine in large measure the main lines of the economic activities of the state. All governments, although to a different degree, seek to influence economic and social processes, the dynamics of major national economic indicators and to solve the acute problems confronting the country by mobilising the available resources, actively participating in the construction of individual enterprises, extending the public sector and utilising numerous financial, customs and other instruments for regulating the private sector.

## 2. THE PUBLIC SECTOR AND INDUSTRIALISATION

The public sector which holds important positions in the economy of most developing countries has become one of the forms of participation by the state in the development of industry and the infrastructure. Encompassing the key industries, transport, the power system, finances, trade, and so on, it is already beginning to play in a number of countries the decisive role in guiding economic development, in new construction in industry and the infrastructure, which ultimately ensures the diversification of their economic pattern. In many countries the state undertakes construction because this demands big long-term investments, the immobilisation of material and manpower resources, the use of external financing sources and the technological know-how of industrially developed countries. The concentration of money and other resources in the hands of the state is an important requisite for extending the construction of highly efficient industrial enterprises and production complexes in the public sector.

The new industries and enterprises created in the public sector are becoming (as demonstrated by the experience of the Arab Republic of Egypt, India and other countries) the outposts of industrialisation, its strategic points of support in the offensive on economic backwardness. They are in fact the material basis of state control over the accumulation and distribution of resources on a nationwide scale and, what is especially important, the decisive instrument for resisting the attempts of the foreign monopolies to subordinate the industrialisation process to their interests.

The scale, methods and results of developing the public sector in the course of industrialisation are not the same in different countries. As pointed out earlier they are deter-

mined by the existing socio-economic conditions and the economic policy pursued by a government. In some countries, for example, India, Pakistan and Turkey, the public sector was set up almost exclusively through the building of new enterprises. In creating the public sector in some Latin American and African countries, alongside the construction of new enterprises, the nationalisation of old ones was of great importance. In Egypt, Burma, Syria, Algeria and some other countries the nationalisation of major sectors and enterprises and their subsequent modernisation have provided the basis of the public sector.

In the Arab Republic of Egypt the public sector, which plays the dominant part in the national economy, was created as a result of the determined and consistent state policy of nationalising the property of foreign and national capital. It continues to grow and extend as a result of new state investments and at present encompasses all key industries and the infrastructure.

Young states which almost simultaneously won political independence and launched industrialisation have followed different paths—some by accelerating the growth of capitalist production relations, others (for example, the Arab Republic of Egypt, Syria, Burma, Algeria, Guinea and Tanzania), developing on the basis of socialising the main means of production in industry and the infrastructure and restricting the exploiting classes.

A sharp class struggle for influence on state policy and for utilising the power of the state to stimulate one or another type of industrialisation chiefly determines the positions of the public sector in the economy of developing countries, the growth rates and sectoral allocation of government investments in industry and the infrastructure, the increase of their share in total investments and, lastly, the ratio of financial resources channelled into the public or private sector.

A rise in both the volume of state resources going into industry and of their share in total investments and also an increase of funds routed into the public sector are characteristic of most Asian, African and Latin American countries. But this general tendency is displayed differently in various countries and produces different results. In countries which restrict and rigidly control private capitalist enterprise, for example, in the Arab Republic of Egypt,

Burma or Syria, all the means going for the development of factory industry and the infrastructure are invested in the public sector. In these countries the state has concentrated in its hands all the main productive capacities in industry and the infrastructure. In the Arab Republic of Egypt the state sector accounts for about 90 per cent<sup>1</sup> of the manufacturing industry, Syria, 80-85 per cent<sup>2</sup> and Burma, about 60 per cent.<sup>3</sup>

A strong public sector in the economy of the ARE was created as a result of the nationalisation policy applied in 1961-67 and also of building new state enterprises in industry and the infrastructure (by 1971 about 1,500 new industrial enterprises had been commissioned). In 1970/71 state-owned enterprises contributed more than three-fourths of the country's entire industrial output and more than one-half of the national income.

The positions of the public and the private sectors in total investments in the national economy and their proportion in the production of the GNP as a whole and in the main spheres of the economy are characterised by the following table:

Positions of the Public and the Private Sector in the Economy of the ARE (per cent) in 1970/71<sup>4</sup>

	In capital investments			In the production of the GNP		
	industry and power	agriculture	infrastructure	industry and power	agriculture	infrastructure
Public sector	84.0	—	80.0	75.0	—	90.0
Private sector	16.0	100.0	20.0	25.0	100.0	10.0

<sup>1</sup> See *Pravda*, January 22, 1969.

<sup>2</sup> See *Problemy ekonomiki i istorii stran Blizhnego i Srednego Vostoka* (Problems of the Economy and History of Middle Eastern Countries), Moscow, 1966, p. 42.

<sup>3</sup> *Report of the Revolutionary Council to the People on the Budget Estimates of the Revolutionary Government of the Union of Burma for 1967/68*, Rangoon, p. 57.

<sup>4</sup> Author's calculations based on materials of the Ministry of Planning and Industry. The following initial data were included in the calculations: share of industry in total investments, 43 per cent; agriculture, 10 per cent; the infrastructure, 47 per cent. In the gross national product: industry, 42 per cent; agriculture, 21 per cent; and the infrastructure, 37 per cent.

The public sector in the ARE is the largest in developing countries. Many new industries which have transformed the country's economy have been built and operate well in it. These include engineering and instrument-making, electrical equipment (for the home market and export), steel and chemical industries. The economic activity of the state has transformed Egypt from a backward British colony into an industrial-agrarian country, in which the value of the output of the manufacturing, extractive and power industries is almost twice as much as that of agricultural production.

Summary data on the sectoral structure of the public and private sectors reveal the role of each in the economy. The private sector includes almost all agriculture, a considerable part of trade (internal and export) and a large number of small and medium-sized enterprises in the leather and footwear, woodworking, textile, food, chemical and metalworking industries. These enterprises account for about 25 per cent of the country's industrial output. Almost all the fixed assets which supply the country with industrial goods and services are concentrated in the public sector.

Share of Investment Capital in the Public and Private Sectors in 1969/70, per cent<sup>1</sup>

	Public sector	Private sector
Productive sphere (including the power industry)	66.0	18.3
Productive infrastructure	21.5	11.4
Service sphere	12.5	70.3

A characteristic feature of state policy in countries which follow the non-capitalist path (the Arab Republic of Egypt, Burma, Syria and some others) is that private capital is deprived of decisive influence on the trend and growth rates of industrial production. The economic policy of the governments of these countries is designed to create conditions for exercising full control of the industrialisation process, prevent the development of capitalist production relations and establish maximum control over foreign capital.

<sup>1</sup> Calculations are based on the same sources as in the previous table.

In many countries of a capitalist orientation, the state also directly participates in industrial production and the development of the infrastructure. It invests its resources in the building of various enterprises in the public sector and gives financial support to private entrepreneurs. According to estimates of UN experts, in most Asian, African and Latin American countries the share of the state in total investments in the mid-1960s exceeded one-third and in a number of countries (India, Pakistan, Sri Lanka, Sudan and others), more than half.<sup>1</sup>

In most developing countries branches of the productive infrastructure which, on the one hand, are marked by high capital intensity, long recoupment periods and technical difficulties of development and, on the other, low prices of their goods and services set by the state in order to extend and cheapen their consumption, hold the biggest share in the public sector as regards the actual investments and the contemplated state appropriations.

Development of the infrastructure in almost all countries proceeds chiefly on account of state investments which make up from 20 to 50 per cent of the total of such investments in the economy in the last decade.<sup>2</sup>

Branches of the productive infrastructure in developing countries are now in such a condition that their expansion and maintenance and the building of new branches demand big state investments on a permanent basis.

The share of the state in total investments in the power industry, transport and communications in Argentina, Brazil, Mexico, Uruguay, Pakistan and a number of other countries ranged from 86 to 100 per cent in the mid-1960s.<sup>3</sup>

The sectoral structure of state investments in the biggest developing countries shows that in the main they are channelled into key industries which provide producer goods.

The sectoral trend of state and private investments distinctly reveals the different part played by the public and private sectors in industrialisation. This can be seen in the

<sup>1</sup> *Economic Bulletin for Asia and the Far East*, Vol. XIX, No. 2, September 1968, p. 2.

<sup>2</sup> "Development Plans: Appraisal of Targets and Progress in Developing Countries"—UN. *World Economic Survey 1964*, Part I, New York, 1965, p. 33.

<sup>3</sup> "Implementation of Development Plans: Problems and Experience"—UN. *World Economic Survey*, Part I, New York, 1966, p. 35.

case of Pakistan. Under the First Five-Year Plan (1956-60) state investments in the country's economy registered a faster growth rate than private investments. They were used for the development of the infrastructure and the needed industries which were shunned by private capital. In line with the government's industrialisation policy aimed at stimulating private capitalist enterprise in industry, more favourable conditions for private investments were created in Pakistan in the mid-1960s. The latter increased substantially; moreover, towards the end of the Second Five-Year Plan (1960-65) there was also a certain shift of investments by the private sector towards increasing the share of industries in Department I (means of production).

UN experts, characterising the industrialisation process in Pakistan, pointed out that "though the private sector has been accorded an important part in Pakistan, the public sector has played a crucial role in accelerating economic growth by providing the necessary infrastructure and by participating in industrial activity in fields where private enterprise was not sufficiently interested".<sup>1</sup>

Share of the Public and Private Sectors in Investments in the Economy of Pakistan<sup>2</sup>

(per cent)

Year	Public sector	Private sector
1960/61	37.7	62.3
1961/62	39.0	61.0
1962/63	42.0	58.0
1963/64	42.0	58.0
1964/65	45.4	54.6
1965/66	41.7	58.3
1966/67	42.9	57.1

Such a division of functions between the public and private sectors in coping with industrialisation tasks is quite characteristic of countries which are oriented on the capitalist path and encourage private capitalist enterprise. In many countries it is the public sector that begins to organise new

<sup>1</sup> *Economic Bulletin for Asia and the Far East*, Vol. XIX, No. 2, September 1968, p. 104.

<sup>2</sup> *Ibid.*, p. 106.

lines of capital-intensive industrial production marked by a slow turnover of capital. At the first stage of their development they cannot ensure a swift profit. That is why private capital, as a rule, does not take part in their initial development, preferring to organise enterprises which work on the basis of goods produced in the public sector. But in many cases as state-owned enterprises in these industries become profitable they are sold to the private sector or turned into mixed enterprises.

In many Asian, African and Latin American countries the public sector is assigned the leading role in industrialisation, while the private sector is given the opportunity to grow at the expense of the profit obtained in the organised industries.

In selling shares of state-owned enterprises to private capital, the state tries to accomplish two tasks which accelerate the industrialisation process: to obtain financial resources for new projects and mobilise the idle private capital by selling shares of public enterprises which are being handed over to the private sector.

In a number of countries special state economic organisations have been set up to ensure the participation of the government in building and developing capital-intensive lines of production at the initial stage, with the subsequent transfer of such enterprises to the private sector. This policy is effected by the State Development Corporation in Uganda, the Industrial Development Corporation in the Sudan, the Regional Development Corporation in Nigeria, and similar corporations in Mexico, Brazil, Iran and other countries.

Such state development corporations in many Asian, African and Latin American countries also determine the conditions for selling the output of public enterprises to private industrial and trading companies (prices, allocations, and so on) which, as a rule, are most advantageous for the latter. These corporations, financial and other agencies participating in the organisation of public, mixed and private industrial enterprises enjoy the support of foreign capital. They receive funds both from individual Western states and international organisations.

The concept of turning over new state enterprises to private capital is spreading in many countries as the public sector grows and gains in strength. In some countries (Pakistan, Turkey, the Philippines, Thailand and others) it is reflected in official government statements concerning eco-

nomic policy. This enjoys the financial support of foreign monopolies. At present the practice of turning profitable public enterprises into private ones or denationalisation of formerly nationalised enterprises (after the latter as a result of additional investments made by the state become profitable) is applied in many countries which stimulate the growth of national capitalism. This leads to the relative shrinking of the public sector and to a reduction of its self-financing possibilities. Moreover, the state loses such economic controls as the most rational allocation of goods which are of great importance for accelerating industrialisation or the setting of appropriate prices for them.

In different groups of developing countries the public sector plays a different part in the industrialisation process, although the general tasks and difficulties of development determine in all of them the paramount importance of this sector as a form of mobilising, concentrating and purposefully utilising material and financial resources.

The place of the public sector in every developing country, its structure and scale, methods and results of development are determined by the socio-economic policy of the ruling forces and the "distribution of roles" between the private and the public sector in the course of industrialisation which follows from this policy.

### 3. CRITERIA OF NATIONAL ECONOMIC EFFICIENCY AND THE PROFITABILITY LEVEL OF ENTERPRISES IN THE PUBLIC SECTOR

The most general economic indicator of the efficiency of the public sector is a rise in the productivity of social labour and, correspondingly, economic growth through the development in this sector of new lines of production and the infrastructure which accelerate the industrialisation and diversification of the national economy. This criterion sums up both the quantitative and qualitative indicators of development directly in the public sector and its influence on the growth of production and structural shifts in the private sector. National economic profitability of the public sector must not be measured only by comparing the inputs in the development of the entire complex of state enterprises and organisations and the direct return obtained from them in the money and material form. It is realised chiefly through a

reduction of the national production costs per unit of output on account of capital investments made in the public sector, the creation, on this basis, of the possibilities for increasing investments and accelerating extended reproduction in the public and private sectors.

The real value of the public sector is much broader than its share in the country's national income. But it is difficult to express it in financial terms because a considerable part of the value created in the public sector of developing countries is realised beyond its bounds.

Of great importance for evaluating the national economic efficiency of the public sector from the viewpoint of its contribution to industrialisation is its composition and the physical form of the goods and services produced in it.

The economic expediency of an industrial policy, scale and sequence of government investments is determined, on the one hand, by the need to eliminate the "bottlenecks" in the economy which arose owing to the shortage of certain types of goods or services hindering the development of the economy and, on the other, by the goal of diversifying the economy and the degree of expediency of building at this stage big projects in new industries the output of which will be needed in future. In many cases both considerations coincide in evaluating the efficiency of new government construction in the infrastructure and industry. But it should be borne in mind that determination of the order of priorities in eliminating bottlenecks and building long-term projects is an important aspect in the economic policy which reflects the interests of the ruling classes. In capitalistically oriented countries the achievement of these tasks is subordinated to strengthening the positions of the national bourgeoisie, to creating an economic "bridgehead" for speeding up its growth. That is why in many cases the objective evaluation of efficiency of state economic activity does not coincide with the evaluation given by the ruling circles which direct the development of the public sector.

Over a longer period of the operation of a long-term plan the general national profitability of government investments in the public sector is expressed in the gross material contribution to the national economy which will be made, as a result of these investments, by the accomplishment of definite strategic tasks of industrialisation. Among them, for example, are a reduction of imports or increase of exports

and the saving of scarce foreign exchange as a result, the tapping and use of local raw material, fuel and power resources, the development of backward regions, the enlistment in social production of new strata of the population and a cut in unemployment, the development of science, education, the health services, training of national technical and managerial personnel, and so on.

Among the factors which determine the general national indicators of the activity of the state in the economy is also the social effect as displayed in the change of the place and role of different classes and social groups of the population in social production, the quantitative and qualitative shifts in the composition of employment, in urbanisation and change in the material welfare of different groups of the population and other social shifts.

The national economic efficiency of the public sector in developing countries is thus determined by a number of indicators characterising the different aspects of its "social value". In addition to indicators common to all countries (for example, growth in the productivity of social labour, national income, employment and so on, through the development of the public sector) this criterion includes indicators specific to each country which take into account its economic potential, the existing world economic relations and nature of political power which determines the socio-economic tasks of development. Therefore the macro-economic profitability criteria of the public sector for countries such as India, Mexico and Brazil are not identical to the criteria in small developing countries in which industrialisation has its specific tasks and trends. At the present stage, many of the small Asian and African countries, for example, are not faced with the problem of priority development of industries which manufacture means of production or import substitutes.

In countries which in the course of the national liberation revolutions have effected radical socio-economic changes, specifically, nationalised the property of the foreign monopolies, the indicator of replacing foreign by national public enterprises does not play the same part as in countries where this is a major problem in the state policy of industrialisation. The criterion of national economic profitability of the public sector is influenced both by the "open door" policy with respect to foreign capital in some countries and the policy of restricting it in others.

The criteria of general national efficiency of the public sector are not immutable for each country. They directly depend on the state policy of industrialisation and forms and methods of implementation. Such an economic indicator as profitability in the narrow sense of the word, the ratio of production costs and profit in money terms, is of great importance for assessing the activity of the public sector, especially the efficacy of state investments in operating enterprises. This criterion is a component of the macro-economic evaluation of all types of productive public activity. Value categories (production costs, price, profit, and so on) are instruments and criteria of the efficiency of government management, the organisation of production in the public sector as a whole and at individual state-owned industries and enterprises.

The factors which determine the level of profitability of state-owned enterprises, industries and the public sector as a whole also depend on the government's industrialisation policy and the methods of implementing it in every country. State protectionism or free competition with foreign enterprises, restriction of imports or their encouragement, state regulation of prices in the home market or free market relations, the channelling of state resources into the public sector or for support of the private sector, and similar alternative courses of action exert a certain influence on the level of production costs in the public sector and on the prices of its goods and services.

The criterion of profitability becomes especially important in solving concrete problems of developing a line of production or the infrastructure in the public sector, included in the long-term plan on the basis of evaluating macro-economic indicators.

Theoretically, the problem of attaining the highest national economic efficiency in the development of the public sector and its individual industries and enterprises can be solved not by counterposing macro- and micro-economic criteria of government investments, but making them complementing and by co-ordinating them. Combining these criteria it is possible to attain the accelerated purposeful (determined by the national economic plan) build-up of productive capacity with the least material, financial and labour inputs, and their most effective use, i.e., to obtain a maximum income in the short period and at low cost. In

practice, however, the policy of new state construction is often determined by political considerations of the ruling circles. This in many cases hampers the attainment of maximum national economic efficiency of the public sector and the rational use of government resources for development in the best national interest.

Profitability of the public sector in the narrow sense of the word is expressed in its revenues, in its contribution to the annual national budget in money terms and the accumulation of its own resources for re-investment. The ratio of costs to profits for a definite period (usually a financial year) determines the profitability of individual enterprises. The profitability of the public sector is in direct dependence on the profit of its enterprises in different branches of the economy. Since the ratio of production costs to profits (taking into account the government's policy of regulating prices) differs in various industries the profitability of the public sector greatly depends on its composition, that is to say on the relationship of enterprises operating at a profit and at a loss in various industries of this sector. The general profitability of the public sector, for example, in India can be judged by the following table.

Profitability of the Public Sector in India<sup>1</sup>

Financial year	Total capital employed, Rs. million	Total return, Rs. million	Percentage of return on capital employed
1961/62	10,907	-76.5	-0.7
1962/63	12,942	-46.8	-0.36
1963/64	15,736	+262.7	+1.67
1964/65	18,688	+465.9	+2.5
1965/66	22,259	+530.3	+2.4
1966/67	26,721	+405.8	+1.5
1967/68	30,783	+274.8	+0.9
1969/70	43,010	+1,390.0	+3.2

<sup>1</sup> *The Developing Economies*, Vol. VI, No. 1, Tokyo, March 1968, p. 9; *The Controller and Auditor General's Audit Report (Commercial)*, New Delhi, 1969; *BIKI*, July 3, 1971.

Of the 70 surveyed Indian state-owned enterprises which in 1966 operated in industry and the infrastructure, 25 had a loss, the profits of 13 ranged from 0 to 3 per cent and only the others, whose share in total state investment was 18 per cent, had a profit of 3 per cent and more.<sup>1</sup> In the next two years the situation did not improve. In studying the profitability of the public sector in India it was calculated that the profit per rupee of investment was 22 paise less than in the private sector. Under the Third Five-Year Plan (1961/62-1965/66) alone the losses of the public sector owing to this difference amounted to Rs. 24,000 million.<sup>2</sup>

The low profitability of the public sector as compared with the private is characteristic of other developing countries as well. It follows from the data in the previous chapter that the bulk of operating state-owned enterprises and those under construction are in the sphere of the infrastructure and in industries which manufacture producer goods. The level of profitability of these enterprises depends on the specific features of these sectors of the economy of the developing countries: high production costs and low state prices of their goods and services.

To create favourable conditions for the development of industry, agriculture and trade all states pursue in one way or another, though to a differing extent, a policy of reducing prices for goods and services in the infrastructure, setting them below production costs in many cases. Moreover, in each country the degree of deviation of prices from the value of the goods differs. But a policy of stimulating the development of the national economy by providing it with cheap goods and services of the state-owned productive infrastructure is becoming the rule for all countries. In this situation enterprises and organisations of this sphere in the public sector operate at a loss and require annual subsidies from the national budget. For example, the value of transport services given to the national economy in the Arab Republic of Egypt in 1963/64 was estimated at 191 million Egyptian pounds, while the revenue received from the transport and communications systems in the same year amounted to 155 million Egyptian pounds. Moreover, two-thirds of this sum came

<sup>1</sup> *The Developing Economies*, Vol. VI, No. 1, March 1968, p. 10.  
<sup>2</sup> *Commerce*, Vol. 116, No. 2958, January 13, 1968, p. 92.

from the operation of the Suez Canal.<sup>1</sup> Railway companies sustained the biggest losses among the state-owned companies operating in Turkey. In four years (1960-64) their losses totalled 390 million Turkish pounds.<sup>2</sup> The railways in India also operate at a loss. In 1966/67 the losses were estimated at Rs. 240 million and in 1967/68, at Rs. 310 million. Freight rates in general are low but for export goods they were reduced by 25-40 per cent in 1967.<sup>3</sup> In Latin American countries on the average half of the rail freight carriage charges are paid by state subsidies.<sup>4</sup>

Thus, the efficiency of state investments in the infrastructure in the sense of their national economic significance and their profitability are by far not identical concepts. At high production costs and low government prices of goods and services in the infrastructure, their profitability most likely will remain low for a number of years, while the importance of their accelerated development in the course of industrialisation and the economic growth of the developing countries will steadily rise. This situation applies both to countries which restrict and control private capitalist enterprise and to those whose economic growth is subordinated to the interests of national capital. But while in some countries the benefits from the build-up of the infrastructure by the government and the provision of its goods and services to other state-owned enterprises at low prices stimulate the advance of the national economy as a whole through the accelerated growth of the public sector, in other countries these benefits are largely enjoyed by private capital. The journal of the National Congress, the ruling party of India, pointed out that it was the government investments in the country's infrastructure that enabled the private sector steeply to increase output in highly profitable sectors such as the production of consumer goods, small and medium-sized machinery, the chemical industry, plantation farming, the working of mineral resources, and so on. During the first three five-year plans private capitalist production in

<sup>1</sup> National Bank of Egypt. *Economic Bulletin*, Vol. XX, No. 2, Cairo, 1967, p. 116.

<sup>2</sup> *Problèmes économiques*, No. 979, Paris, October 6, 1966, p. 26.  
<sup>3</sup> *Mirovaya ekonomika i mezhdunarodniye otnosheniya* No. 12, 1969, p. 57.

<sup>4</sup> International Monetary Fund. *Staff Papers*, Vol. XV, No. 1, p. 114.

these sectors of the economy rose 2.5 to 16 times and the profits obtained by the private sector during this period amounted to three-fourths of the net income created in the national economy, although the investments made in the private sector were less than half of the total investments in the economy.<sup>1</sup>

Not only the infrastructure but also many industries in the public sector are marked by low profitability. A big share of industrial enterprises which operate at a loss is characteristic of the public sector in most developing countries. Thus, of the biggest 44 Indian state-owned industrial and commercial enterprises 14 had a loss of Rs. 532 million in 1966/67, while the net profit obtained by the others amounted only to Rs. 308 million. In 1965/66 the public sector accounted only for 16.7 per cent of the gross profit obtained by Indian industrial and commercial enterprises.

On the average the ratio of the gross profit to the invested capital was 9.9 per cent at industrial enterprises in the private sector in the 1960s, while at the largest state-owned enterprises it was 3.3 per cent<sup>2</sup>; profits of foreign companies were estimated at 13.5 per cent.<sup>3</sup> This situation is explained by the government industrialisation policy in India (just as in most developing countries): development with state resources of new and capital-intensive lines of production which do not yet attract private capital, and the supply of the national economy with major types of goods at low prices. Part of the blame goes to state management in the public sector itself.

Emphasis on the development of new lines of production and the modernisation and expansion of the existing industries results in the concentration of a big number of new enterprises, whose construction has not been completed or which have not yet mastered the production process, in the main branches of state-owned industry. Since big industrial enterprises with sophisticated technology are built in the public sector in most cases, the period of organising the production process takes up considerable time, and at the initial stage they operate at a loss. According to an estimate of the Planning Commission of India, new enterprises begin

<sup>1</sup> AICC *Economic Review*, August 15, 1967, p. 17.

<sup>2</sup> *Commerce*, Vol. 116, No. 2981, June 22, 1968, pp. 20, 22, 81.

<sup>3</sup> AICC *Economic Review*, August 15, 1967, p. 15.

to yield a return within 2 to 4 years of the realisation of the investments, while data about the "age" composition of operating Indian enterprises show that about one-fifth of them are "younger" than five years.

In many countries the expansion of new construction and the increase in the number of public enterprises which need state financial support absorb not only the income of profitable public enterprises, but also necessitate government spending from other sources (loans, taxes, and so on).

Growth of Capital Investments by the Central Government of India<sup>1</sup>

	Number of enterprises	Total investments, Rs. million
At the beginning of the First Five-Year Plan (1950/51-1955/56)	5	290
At the beginning of the Second Five-Year Plan (1955/56-1960/61)	21	810
At the beginning of the Third Five-Year Plan (1961/62-1965/66)	48	9,530
At the beginning of 1966/67	74	2,415

The big share of state-owned enterprises being built in new lines of production is a common feature in most developing countries. Their number in the public sector is increasing from year to year because the pressing needs of the developing economy are impelling countries to launch ever new projects without waiting for the completion of those already started or the attainment of profitability by the recently commissioned plants.

The development of new industries, the increase of government investments in the building of large modern enterprises and similar measures for accelerating industrialisation are an important indicator and criterion of the "social utility" of the public sector. At the present stage, however,

these factors result in a temporary (although probably prolonged) reduction of the profitability of capital per unit invested in the public sector, i.e., its low micro-profitability.

Countries which have nationalised the main industries and the infrastructure have the biggest possibilities for raising the profitability of the public sector. Developing in the public sector both new industries which still bring a loss and branches which are profitable, these countries are able to set and maintain optimal proportions between them and to achieve a rational level of profitability of the public sector as a whole. In the Arab Republic of Egypt, for example, where all the main heavy and light industries and also branches of the infrastructure are concentrated in the public sector, the profits of the latter are rising and its share is increasing in the production of the national income. Thus, while in 1969/70 the profits of the public sector amounted to 13 million, in 1970/71 they rose to 60 million Egyptian pounds and its share in the national income exceeded 50 per cent. The revenue of public enterprises is becoming a major source for expanding the material and financial basis of the state's economic activity and a source of rising accumulations.

With growing incomes of state-owned enterprises, the government can determine the trend, proportions and rates of new construction in the public sector and plan the modernisation and enlargement of existing enterprises. Moreover, it is possible to co-ordinate the rates of accumulation and the increase in the part of the state resources allotted for social welfare.

For a comparison of the level of profitability of public and private enterprises in countries which stimulate the development of national capitalism it is most expedient to use data of their operation in the same industries. (See table on p. 98.)

These and many other industries are being developed both in the public and in the private sector. Analogous private and public enterprises encounter about the same difficulties because they operate in more or less equal conditions. Since the prices for the output of public and private enterprises operating in the same sector, as a rule, stand at the same level, the main reason for the lower profitability of the former as compared with the latter is rooted in differences of production costs.

<sup>1</sup> *Eastern Economist*, Annual Number 1968, December 1967, p. 1174.

Relation of Gross Profit to the Employed Capital  
of Public and Private Enterprises in  
India in 1965<sup>1</sup>  
(per cent)

Industry	Enterprises	
	Public	Private
Steel	2.5	14.8
Engineering	11.2	18.8
Chemical	3.1	17.4
Coal	0.8	8.8
Paper	11.2	8.6

An analysis of the structure of production costs at public and private steel plants in India can illustrate the situation at enterprises of many developing countries. The analysis shows that at the former the material inputs per unit of output<sup>2</sup> (both capital investments and the expenditure for raw material) are approximately 30 per cent higher than at the latter. This is explained above all by the high cost of building state-owned enterprises incurred, first, through the repeated changes in the original designs, and delays in construction and, second, through the unfavourable terms of buying equipment, in many cases on terms dictated by the foreign monopolies, and not in the free market where the terms of delivery and prices are more favourable. Continued difficulties with raw materials (poor quality, untimely deliveries, excessive consumption, and so on) affect the costs.

The excessively high cost of construction is a typical feature of the new state-owned industries in developing countries. Thus, in many cases the building of new public enterprises and bringing them up to the rated capacity are proceeding at a slow pace. This is a result of both objective difficulties, connected with the general economic backward-

<sup>1</sup> *Eastern Economist*, Annual Number 1968, December 1967, p. 1174.

<sup>2</sup> Calculated after *Eastern Economist*, Annual Number 1968, December 1967, p. 1207.

ness of countries (shortage of finances, materials, skilled personnel and technical know-how, etc.) and shortcomings in planning, organising and directing these processes. The delays in construction and organising production at new public enterprises increase the expenditures and the period of their recoupment.

Delays in industrial construction (especially of big projects) in many cases begin already at the initial stage—the drawing up and approval of the designs. The Indian Committee on Public Undertakings in its 13th report on the building and operation of 32 of the biggest public enterprises (1966) pointed out that in some cases the designs were not elaborated in detail or approved; in a number of other cases, on the contrary, they were prepared and changed twice, which involved big additional outlays. Serious mistakes and underestimation of the needed resources were discovered in many projects already in the course of construction. The capital investments, manpower, transport facilities, and so on, needed for construction, were wrongly calculated. All this dragged out construction for one or two years, with the result that the actual expenditure greatly exceeded the original estimates (in some cases, by over 50 per cent).<sup>1</sup>

The problem of thorough and competent techno-economic planning of the building of enterprises envisaged by the general national economic plan is very acute in all developing countries. It can only be solved by scientifically based preliminary calculations for determining the scale of operation of the future enterprise, its territorial location, resources, raw materials, electric power, fuel and water, markets for the sale of its products, personnel, and so on.

Underemployment of capacity at many operating public enterprises is another major cause of their low profitability. It should be noted that underemployment of capacity is a characteristic feature of all industry in developing countries. But while drawn-out underemployment of enterprises of the public sector in many cases leads to their chronic losses and becomes a constant heavy burden on government finances, private enterprises for their very nature cannot operate at a loss for a long time because profit is the main

<sup>1</sup> *Commerce*, Annual Number, Vol. 113, No. 2903, December 1966, p. 111.

aim of their owners. It should be noted that underemployment of capacity in the private sector is possible only within bounds of lower profit but not at a loss. At times, on the contrary, underemployment of capacity at private enterprises tends to send up the price of their goods which compensates for the losses resulting from this underemployment. That is why this phenomenon common to both sectors has different consequences for the national economy as a whole.

Different systems of estimating the available productive capacities are employed in various countries. That is why their comparison can be only approximate, with a certain allowance for the inexactness of the data and the different methodology of evaluation. Nevertheless such a comparative analysis reflects the real situation in utilising productive capacities in developing countries.

In the report submitted by UNIDO experts in 1967 the general situation in public and private industry of many developing Asian, African and Latin American countries was characterised as follows. In Latin American countries the installed capacities were underemployed on the average from 20 to 40 per cent in all industries in 1962-67, and in some industries to a much greater extent.<sup>1</sup> Let us note for comparison that in 1967 capacity at US enterprises operating abroad was employed at 81 per cent on the average.<sup>2</sup>

The considerable and increasing underemployment of capacities affects the financial performance of enterprises, sends up production costs, and, consequently, reduces profit or sends up losses. Since underemployment of capacity at state-owned enterprises is a widespread phenomenon it is becoming one of the essential causes for the unprofitability of the public sector as a whole. Moreover, underemployment of capacity at public enterprises also signifies the freezing of productive capital, which in view of the limited resources of developing countries hampers economic development, leads to the growth of their foreign debt and retards the introduction of more efficient equipment and labour organisation, in other words, harms the industrialisation process and represents a direct deduction from the national income.

<sup>1</sup> *Mirovaya ekonomika i mezhdunarodniye otnosheniya* No. 12, 1969, p. 60.

<sup>2</sup> See *BIKI*, September 5, 1968, p. 6.

Underemployment of capacity in industries of the public sector is caused both by objective difficulties and many economic miscalculations. UNIDO experts who studied its causes established that in 54 per cent of the cases the main reasons were various difficulties in getting raw materials; in 25 per cent insufficient demand for the goods; and in 21 per cent a shortage of working capital.<sup>1</sup> Among the general objective causes of the underemployment of enterprises in the public and also the private sector are the insufficient development of the services (difficulties in transport, commercial credit, insurance, shortcomings in wholesale and retail trade, and so on), difficulties in getting raw materials, fuel, electric power, equipment and spare parts and a shortage of skilled personnel.

Special mention should be made of the problem of raw materials, which is one of the main causes for the underemployment of capacities in both sectors. The concrete causes of the shortage of raw materials for the normal operation of enterprises differ in each case, just as the conditions for removing them, but the most serious of them can be combined in several groups: 1) the deliveries of local raw materials are lower than expected and are not made on time because of the insufficient development of the raw material basis and transport difficulties; 2) insufficient deliveries of imported raw materials owing to a shortage of foreign exchange and various government import restrictions; 3) increasing prices of raw materials owing to which their purchases have to be limited, and growing transportation expenses; 4) insufficient standardisation of raw materials and a lowering of their quality.

Difficulties in the marketing of output is another important reason for the underemployment of capacity and the low profitability of enterprises on the whole. The crux of this problem is that, first, the demand for their goods in the home market is inadequate and, second, it is impossible to sell them profitably in the foreign market.

Underemployment of capacity in many cases is caused by the fact that in building the new large enterprises it was expected that the demand would rise in the course of industrialisation. But the pace and trend of industrialisation often

<sup>1</sup> *Mirovaya ekonomika i mezhdunarodniye otnosheniya* No. 12, 1969, p. 60.

do not correspond to the planned targets, and the output of a number of enterprises finds no market. This situation is characteristic of a considerable part of the large public enterprises in developing countries, especially those specialising in comparatively narrow assortment of goods.

The relationship between the national production costs and world prices of manufactured goods of developing countries is unfavourable for the latter in most cases. Many public enterprises, for example, Hindustan Steel, Ltd. (India) are exporting their output only with the help of government subsidies.<sup>1</sup> Nevertheless the expansion of exports for the fuller use of available capacities of public enterprises even with the help of government subsidies is apparently one of the ways of breaking the "vicious circle" of underemployment of capacity of enterprises owing to the insufficient demand for their goods because of the high production costs.

The organisation and management of production is an important factor influencing production costs in industry of the public sector and particularly the use of capacities. Data of numerous surveys of the working time of machinery and equipment at public enterprises in developing countries reveal big unjustified idle time. This attests to the poor organisation of production and the low skill of the personnel. It also implies big possibilities for increasing output as compared with the existing level without additional investments.

A requisite for the uninterrupted and efficient operation of machinery and equipment is the rational, scientifically based organisation of the production process at all stages, including the supply of raw materials and spare parts, provision of the necessary personnel and the organisation of their work, timely maintenance and renewal of machinery and equipment and the organisation of warehouses, sales and financial operations of an enterprise.

Public enterprises have big potentialities in organising the production process for reducing superfluous expenses at all stages of production and preparation for it, and the resultant rise of profitability. Let us examine in brief some of the most important of these potentialities.

Problems of supply are the first to attract attention in

studying the profitability of state-owned enterprises. Since the latter enjoy definite advantages in the allocation of scarce raw materials and equipment, as compared with private enterprises, some of their executives, to avoid a reduction of the allotted resources, buy excessive quantities of costly equipment and set up superfluous stocks of scarce raw and other materials. At the same time equipment is idle as a result of breakdowns and the lack of spare parts, and delays in the delivery of the necessary raw materials. Too many people are employed at some enterprises and big losses also result from malpractices of the management (corruption, embezzlement, and so on). Systematic violation of financial regulations leads to unjustified expenses for the payment of fines and penalties; lastly, poor organisation of the sale of goods results in that many public enterprises conclude contracts with related private companies.

Normalisation of the consumption of raw materials and fuel, which in some industries comprise about two-thirds of all inputs, is an important reserve for reducing costs. The facts show that public enterprises often use without justification high-quality and scarce raw materials and fuel where it is possible to employ cheaper resources of lower quality.

Poor organisation of the labour of factory workers and other employees in the public sector is another reason for the unsatisfactory operation of enterprises and an improvement in this respect could raise their profitability. In broad terms the situation as regards manpower resources in developing countries can be described as follows: unemployment, and at the same time a shortage of skilled personnel and irrational use of the available higher- and middle-level personnel.

These factors affect the financial position of the public sector as a whole and of its individual enterprises not the same way as in the case of private enterprises. The efforts of many governments to reduce unemployment lead to a rise of employment in the public sector without a corresponding expansion of production. In many cases the over-staffing at public enterprises results in that the number of employees is from two to four times greater than the actual number necessary.<sup>1</sup> For example, at new state-owned steel plants

<sup>1</sup> *Capital*, April 25, 1968, p. 797.

<sup>1</sup> *Commerce*, Annual Number, Vol. 113, No. 2903, December 1966, p. 112.

in India, the number of workers is at least three times bigger than at similar enterprises in Britain.<sup>1</sup> This situation naturally is a factor which reduces average labour productivity not only in the public sector but also affects the level of productivity of all social labour.

The steady growth of the managerial staff at state-owned enterprises is also out of proportion to the increase in their output. "Staff productivity and efficiency is admittedly low and this is one of the reasons for the heavy expenditure incurred under overheads," R. K. Jain, an Indian economist, pointed out in his study of the management of state-owned enterprises.<sup>2</sup> A commission for assessing the personnel policy of 58 Indian state-owned enterprises emphasised this point in its report as being general for India's public sector.<sup>3</sup> It also drew attention to the absence of a definite system for the selection of executive personnel, to the bureaucratic approach to the management of public enterprises as seen in the existing practice of enlisting for managing the enterprises retired and discredited civil servants who in their majority had no experience of work in industry. They are largely responsible for the red tape, corruption, embezzlement, and other malpractices at many state enterprises.

Personnel for managing public industry is also recruited from representatives of private capital. One of the main points in the programme of the Federation of Indian Chambers of Commerce and Industry is the participation of representatives of private capital in managing the public sector. The biggest Indian monopolists hold posts in the board of directors of the State Bank of India, in the Reserve Bank of India, the National Industrial Development Corporation, Ltd., the financial corporations of a number of states, and so on. In 140 surveyed state-owned companies in the 1960s approximately 45 per cent of the directorships were held by representatives of the private sector and the others by government officials. It is difficult to expect of executives of this type effective industrialisation measures if they run counter to the interests of private capital.

<sup>1</sup> *Commerce*, Annual Number, Vol. 116, No. 2981, June 22, 1968, p. 51.

<sup>2</sup> R. K. Jain, *Management of State Enterprises in India*, Bombay, 1967, pp. 270-71.

<sup>3</sup> *AICC Economic Review*, March 10, 1965, pp. 18-32.

Among the important shortcomings of the existing management system is the absence in many countries of elaborated and approved regulations concerning the salaries of the executive and managerial personnel at public enterprises. Remuneration of this category of employees, as a rule, is not linked to the financial results of an enterprise's operation, whereas such a link is a stimulus to improving their work and raising their responsibility. The absence of a unified scale of salaries of executive and managerial personnel at public enterprises is an important reason for the brain drain in the public sector. The most promising young executives, engineers and technicians, who in many cases received their training abroad or in their own country at government expense, are lured by more lucrative remuneration at private enterprises.

The public sector as a whole and its individual enterprises require constant, competent, experienced and resourceful management because the economic results of the operation of state enterprises directly depend on the organisation at all stages of the production process by people responsible both for achievements and for failures. Owing to the poor organisation and management of production, supply, sales, transport and financial operations of state enterprises, their own and borrowed financial and material resources are frozen, and skilled personnel is irrationally utilised at a time when there is an acute shortage of specialists. This factor is one of the chief reasons for the lower efficiency of state capital investments as compared with private.

In countries where the private sector has lost its key positions or has been greatly curtailed the situation as regards personnel is also unfavourable. First, almost everywhere there are considerably more employees at state enterprises as compared with the number envisaged in the project. For example, at the Helwan coking by-products plant in the Arab Republic of Egypt, the project envisaged a staff of 585 employees. Actually, in 1965, there were 967 employees (increasing production costs by 68,400 Egyptian pounds annually), and in 1970 there were 1,570, i.e., twice as many as the planned figure.

Between 1960 and 1965, according to data of the Planning Ministry of the Arab Republic of Egypt, wages increased by 23 per cent, while labour productivity rose only by 9 per cent. As for managerial personnel, here, too, former

representatives of private capital are often invited to manage state-owned enterprises. These persons, as a rule, are more experienced businesswise but, preserving the psychology of private owners and seeking to amass considerable personal fortune in the state service, are unable to manage enterprises in the interests of society and the state.

In a number of countries the first more or less successful steps in reorganising the management of public enterprises have already been made. Workers' councils which take part in management have been set up at many enterprises in Burma, Syria, Algeria, Egypt and some other countries. Initial experience has also been gained in setting up enterprises managed by "self-administration committees".

The question of improving the management of state enterprises attracts attention not only in the developing countries themselves, but also is becoming the subject of discussion at many international conferences and symposiums. The increasing role of public enterprises in the economy of developing countries and in the reconstruction of its pattern, the introduction of modern equipment and scientific achievements and the operation of large-scale enterprises demand executives of a new type who possess the knowledge and experience of businessmen and the vision of statesmen. So far insufficient attention is paid in many countries to the training of such personnel for managing state enterprises.

#### 4. PRICE-FORMATION IN THE PUBLIC SECTOR AND USE OF THE INCOME OF STATE-OWNED ENTERPRISES

Exercise of the economic and social functions which the public sector is called upon to perform during the industrialisation of developing countries largely depends on a rational scientifically based regulation of prices of the goods and services of its individual industries and enterprises. In the hands of the state prices can become an instrument for stimulating the development and expansion of the home market, for shaping the reconstruction of the pattern of production and distribution and accelerating economic growth as a whole.

Macro-economic considerations in many cases prevail in setting prices for each type of goods and services in the public sector so as to ensure their most efficient use in the general national economic interests. The government is able

to adjust the market mechanism of setting prices of the output of public enterprises in a direct administrative way or by fixing their highest and lowest levels. The experience of most developing countries shows that the state, as a rule, sets prices of the goods and services of the public sector proceeding both from the general trends of the industrialisation policy and the concrete tasks of developing the given sphere of the economy.

The state resorts to overpricing in the comparatively rare cases when it is necessary to stimulate the development and expansion of some line of production (most often, raw materials) by mobilising the internal accumulations of the given enterprises. Usually the aim is to expand the production of the scarce goods which are supplied to other state enterprises at temporarily higher prices, but at times such prices are also used in other spheres of the economy in order to increase government revenue. A case in point is the State Trading Corporation of India, which maintains high prices of a number of goods to ensure revenue for economic growth. Prices at a comparatively high level have also been set by Hindustan Antibiotics for scarce items.

The setting of lower prices for the output of state-owned enterprises which contribute goods and services for productive purposes are most widespread in many developing countries. These so-called strategic prices are motivated by definite aims of the industrialisation policy. Such prices are based on direct subsidies to state-owned enterprises which produce respective goods and represent indirect subsidies to their consumers (public or private). The government undertakes to make up for the difference between the price it sets and the "normal" market price which would enable the enterprise to cover production costs and obtain a profit. If the production costs of a public enterprise are higher than the market price, the state gives it a subsidy, which covers both the higher costs and lower prices, thus subsidising the producers of the given goods or services directly and their consumers indirectly.

A subsidy is given to many public enterprises when the prices of their goods are set on the basis of prices of similar imported goods. In cases when mastery of new production methods and higher expenses for imported raw materials make high costs objectively inevitable and the national production of the given goods is essential, the state subsidy to

producing enterprises is designed to prevent the shifting of the high costs onto the consumer (private company or public enterprise). Such subsidies, however, are also received by state enterprises whose production costs are excessively high owing to unsatisfactory management. Actually at times it is very difficult to differentiate between these two factors, and at the fixed level of prices public enterprises remain chronically unprofitable either for objective or subjective reasons.

In countries where private capitalist enterprise is restricted and all the main industries and the infrastructure are developed in the public sector, for example, in the Arab Republic of Egypt, the lower prices of goods and services for production purposes are dictated by the need to stimulate the expansion of production and accumulation in strategically important industries of the public sector, whose development is of paramount importance at the given stage. To accelerate for example the growth of the engineering and chemical industries, construction, and so on, prices are reduced (at times below the actual production costs) for the output of state-owned steel, power, fuel and other enterprises. The profitability of some public enterprises is raised at the expense of others, the supply of the national economy with the most scarce and strategically important goods is expanded and accelerated, the accumulation rates grow and the profitability of the public sector as a whole rises.

Such a price-formation policy apparently is necessary and inevitable for a number of countries at a definite stage of industrialisation. But it also has adverse aspects which make themselves felt. Many enterprises whose products are underpriced steadily operate at a loss, become chronically unprofitable. Owing to the adjustment of the prices of their output, it is difficult precisely to estimate their material contribution to the national economy, their real profitability. They can operate only if they constantly receive government subsidies. Moreover, experience shows that quite frequently these subsidies cover not only the real losses of the enterprises because of the justified and necessary "strategic" reduction of prices, but also other losses resulting from the poor organisation of the production process, corruption, abuses, and so on. Thus, government subsidies to such enterprises conceal from society the real state of their affairs, place well and poorly operating enterprises on the same footing.

Owing to the constant unprofitability of such enterprises and the fact that their managers expect state subsidies, they to one or another extent lose the direct stimulus to improving performance, namely, profit. The responsibility of management to the personnel of the enterprise for the results of operation is reduced because the remuneration of the rank and file for improving their work depends not on raising the profitability of the enterprise, but on the size of the state subsidy.

In many countries of a capitalist orientation the government often supports an unprofitable enterprise by annually investing its funds into its shares, stipulating in advance that it would receive neither dividends nor profits in any form. In a number of countries (for example, Ecuador, Ghana and others) the losses of state-owned enterprises are covered without any restrictions by subsidies and credits from the treasury, regardless of their cause.<sup>1</sup>

On the pretext of compensating for losses sustained by public enterprises owing to the policy of underpricing state subsidies, loans and credits are widely given to unprofitable plants at their first request by various government agencies and institutions which do not co-ordinate their actions, opening wide opportunities for diverse forms of embezzlement and abuses. The terms of loan repayment and servicing are not stipulated in advance and, as a result, there are unjustified deferrals of payment and the annulment of financial obligations of enterprises to the state. The violation of financial regulations at state enterprises in many developing countries is also expressed in the use of short-term loans for long-term investments, in "eating up" the fixed capital, and so on.<sup>2</sup>

Such a practice undermines the foundations of efficient management in the public sector, obliterates the distinctions between their own and borrowed funds, undermines financial responsibility both at individual enterprises and in the public sector as a whole. Such a situation or different combinations of its elements adversely affect the financial results of the operation of public enterprises. Examples of this kind can be found in the public sector of Nigeria, Ghana, Ecuador and other countries.<sup>3</sup>

<sup>1</sup> UN. *Organization and Administration of Public Enterprises. Selected Papers*, New York, 1968, p. 101.

<sup>2</sup> Ibid., p. 102.

<sup>3</sup> Ibid., pp. 102-04.

The demand is insistently voiced in a number of countries for a cautious and considered approach to reducing prices of the goods produced by enterprises of "strategic" significance. An important aspect of governmental industrialisation policy is presented by attempts at a more thorough study of the entire range of economic tasks which determine the expediency of reducing state prices of goods, including compensation of the precisely calculated resultant losses of state resources by estimating "theoretical" profitability on the basis of the production costs and a comparison with costs at similar enterprises in the given country or abroad. It is also necessary to include in the sum of compensation for the losses of an enterprise through underpricing the resources required for different forms of material incentives to make the personnel interested in improving the operation of the enterprise.

Briefly, the meaning of the relevant proposals by most economists and experts in developing countries resolves to the following: whatever the actual result of the economic activity of public enterprises, profit or loss, it must be defined in precise terms taking into account the changes in profitability resulting from the economic policy of the state in the field of taxation, price-formation, and so on.

In countries where the state industrialisation policy is applied by simultaneously developing the public sector and stimulating private capitalist enterprise, state regulation of the prices of goods and services furnished by enterprises of the public sector is aimed at accelerating economic growth through the development of capitalist relations. Such regulation results in the rechannelling of substantial state resources into the private sector for its expansion and consolidation. The essence of such a policy pursued in many Asian, African and Latin American countries consists in that the state, under the pressure of private entrepreneurs, cuts the prices of the goods and services of public enterprises which are then utilised in the private sector. Thereby additional possibilities are created for increasing its profitability and, consequently, for strengthening and expanding it.

Such a state policy and its results attract the attention of many Western students of the economy of developing countries. UN experts have pointed out that the policy of governments in setting prices of goods and services provided by state corporations at times tends to limit accumulations

at these enterprises.<sup>1</sup> A case in point is the development of the biggest industry in the public sector of Mexico, the oil industry. The low prices for its goods set after nationalisation in 1938 were a source of serious financial difficulties of the state Petroleos Mexicanos Company (Pemex). In 1957 the price of petrol in Mexico was 80 per cent lower than in New York, while fuel for urban motor transport was supplied at even lower prices.<sup>2</sup> Only after a certain increase in prices in 1958 did the company become profitable and was able to expand. At present prices of the output of this state company are set at a considerably lower level than the world prices. Tens of private petrochemical factories have been built to process state oil products. All of them are highly profitable, which is largely due to the low state prices of the raw materials and semi-manufactures they consume.<sup>3</sup> Pemex sells some of its goods to wholesalers who receive from 18 to 200 per cent profit on their resale.

Reduced prices of important kinds of goods and services of the public sector are preserved in India. This applies specifically to rates of transport services and electricity and the prices of steel<sup>4</sup> and building materials. Prices of cement, for example, are only one-half or one-third of the price level on the free market. The government of Brazil, in conditions of a general steep rise of prices as a result of inflation, refrained from raising the prices of fuel and electricity and the rates for the services of railways and communications.

The repumping of surplus value created in the public sector into the private sector through an appropriate price policy is widespread in many Asian, African and Latin American countries. This process is veiled and the actual scale of repumping is concealed from the public view. What is seen on the surface is only the growing unprofitability of the public sector, which also undermines the very idea of government operation of enterprises.

<sup>1</sup> See UN. *World Economic Survey 1969*, p. 7.

<sup>2</sup> O. Klesmet, *Meksika* (Mexico), Moscow, 1969, p. 98.

<sup>3</sup> See A. A. Pavlenko, *Gosudarstvenno-kapitalisticheskoye regulirovaniye ekonomiki v Meksike* (State-Capitalist Regulation of the Economy in Mexico), Moscow, 1968, pp. 36-37.

<sup>4</sup> In August 1968 the Indian Government decided to raise the price of steel by Rs. 46 per ton.

The hard financial position of all developing countries determines the great urgency of rational, thrifty and strictly economical use of government finances and material resources going into the public sector. It is now already clear that from the viewpoint of raising the profitability of the public sector and increasing accumulation rates it is expedient to create in it complexes of enterprises which both produce and consume goods so that the low profitability of some may be offset by the high profitability of others and thus create conditions for the self-financing of the given complex of enterprises.

In countries where government financial agencies have the possibility and the means of holding enterprises and their executives strictly responsible for the expenditure of the resources they are given, the situation is being stabilised, improved, the share of budgetary receipts from the profit of public enterprises is growing, and the self-financing of the public sector is increasing. Some countries are gradually registering certain achievements along these lines. Among them are Uganda and Mexico.

The practice of re-allocating their incomes and profits is also exerting a definite impact on the results of operation of public enterprises. In this respect there is no uniformity among developing countries. Two principles underlie the existing system in many countries, in each country one or the other dominates or their combination is accepted as a compromise. The first of them is to hand over all incomes of enterprises to the government, so that the latter, in a centralised way and in accordance with the plan, should utilise them for the development of one or another sphere of the economy, including the enterprises concerned.

The other principle is to leave the profit (less taxes) at the enterprise for re-investment and distribution at the discretion of its executives. This stimulates their initiative and the desire to obtain a maximum profit which, after they discharge all their obligations to the state, remains with the enterprise. But the application of this principle deprives the state of a considerable part of the financial resources it could utilise for the purposeful implementation of the adopted national economic plans and development programmes. Therefore in many cases the state takes part of the profit, leaving the rest at the disposal of the enterprise. In Sudan and Uganda, for example, all the profits of public enter-

prises go to the state industrial development corporations. In Nigeria, enterprises are allowed to re-invest their profits. In Pakistan, some groups of enterprises turn over their profits to the state, others dispose of them themselves. In Iraq, one-fourth of the profit of public enterprises is handed over to the budget, one-fourth is distributed among the personnel of the enterprise concerned, the rest goes for the expansion of the enterprise and is also utilised for building new projects in the same industry. In Chile, the state leaves the profit at the enterprises, provided they do not exceed the fixed maximum. In Argentina, a profitable public enterprise has to turn over to the state 20 per cent to cover the losses of other state enterprises. In Nicaragua and Costa Rica, public enterprises dispose of their income themselves.

For all the diversity in the use of profits of public enterprises in different countries, it is evident that the most efficient in each of them would be the system which does not deprive individual enterprises of the stimulus to increase profits and the profitability of production, allowing simultaneously the use of part of these profits for setting up state funds and drawing near to solving the investment problem of the public sector on the basis of its self-financing.

##### 5. PROBLEMS OF REGULATING THE PRIVATE SECTOR

One of the most important and intricate problems in industrialising developing countries is the scale, forms and nature of participation of the private sector.

In all developing countries the private sector contributes the larger part of the GNP. With the exception of a small group of countries such as the Arab Republic of Egypt, Algeria and the Syrian Arab Republic, the private sector accounts for more than three-fourths (and more often, above nine-tenths) of the entire industrial output. It contributes more than half and, as a rule, more than four-fifths of all capital investments in the industry of these countries. In view of its big share in the national economy as a whole and industry in particular, the private sector exerts a great influence on the entire economic pattern of a country, the direction and nature of a considerable part of capital investments, the allocation of raw materials, fuel and semi-manu-

factures, the use of foreign exchange and the employment of a country's human resources. At the same time the activity of the private sector is regulated by laws governing the market mechanism, irrespective of whether they coincide with the needs of social progress or run counter to them. It is for this reason that such urgency attaches to the question of the possibilities, scale, forms and methods of regulating the private sector by the state, of subordinating the activity of private entrepreneurs to the needs of economic development, including industrialisation.

The objective prerequisites and subjective aspirations for solving this question are by far not the same in different countries. The possibilities of regulating the private sector depend on such major distinctions of each country as the degree of socialisation of production and the development of commodity-money relations, the scale and structure of the home market, the degree to which a country is bound to the world market, the size and industrial pattern of the public sector, the fragmentation or, on the contrary, the concentration of private capital. It is also necessary to bear in mind that the scale and nature of the tasks various countries undertake and the sequence in attaining the set goals highly differ. All this influences the scope and character of the measures for regulating the private sector and also their efficacy. Where the policy is to subordinate the activity of private enterprise to the needs of national development, regulation measures are applied more consistently and the objective is attained to a greater extent. The efficacy of measures, carried out within the bounds of a general policy of encouraging private capital and creating a "favourable climate" for it, is much lower.

The scope and efficacy of measures for regulating private enterprise and spontaneous social processes largely depend on the forms and methods of regulation employed by the state. The concrete ways of regulating private capitalist enterprise is a question which recently has been given a prominent place in the activity of government agencies of developing countries and international economic organisations. UN experts who studied problems of planning in developing countries rightly emphasise that a plan "suggests the essential elements of a strategy that might be followed in implementing plans that involve the private sector in a material way". For this it is necessary "to devise a suitable

combination of policy measures to induce the desired pattern of behaviour".<sup>1</sup>

At present developing countries employ a whole arsenal of administrative and economic measures for influencing the private sector. Various laws determine the possible sphere of activity of private capital and decree what industries are the monopoly of public enterprise. State licences, permits and registration have become widespread in most developing countries. They enable the government to a certain degree to determine the number of big and medium-size enterprises operating in one or another sphere.

Many economic regulation measures are based on the principle of raising profitability in sectors which are of prime importance for implementing the state industrialisation strategy, creating a stimulus to private capital for building new and expanding and modernising the existing enterprises in sectors of the economy which accelerate and extend capitalist accumulation.

The experience of many developing countries shows that this is facilitated by various measures, such as direct state financial assistance to private industrial companies (subsidies, credits on privileged terms, and so on), easing the conditions for the importation of raw materials, equipment, machinery and spare parts, the provision of additional foreign exchange above the established limits, various privileged tax rates or deferment of the payment of taxes for new enterprises, easing control over the prices of their goods, the provision of export guarantees and export bonuses, the establishment of special state organisations for aid to private enterprises in improving the quality of their output and training personnel. Alongside this, Asian, African and Latin American countries apply, some more consistently than others, economic measures to restrict and curtail the activity of private capital in individual spheres.

In their policy of utilising the possibilities of the private sector for accelerating industrialisation, the governments of a number of developing countries lay emphasis on various measures for stimulating or restricting private capitalist enterprise in individual spheres of the economy. But what is common to all of them is that they resort to such measures.

<sup>1</sup> "Implementation of Development Plans: Problems and Experience" —UN. *World Economic Survey 1966*, Part I, New York, 1967, p. 46.

In many countries (especially capitalistically oriented) special financial organisations have been set up to give credit and subsidise private entrepreneurs in definite industries. For example, government financial organisations of India gave private entrepreneurs credits, loans and subsidies totalling about Rs. 4,500 million<sup>1</sup> between 1948 and March 1964; during the period of the operation of the first three five-year plans the funds from the state budget used for financing the private sector increased from 3.9 to 10.5 per cent of the total budget resources. The economic development plan of Malaysia for 1966-70 envisaged that 5 per cent of the state resources earmarked for development needs should be given to private entrepreneurs. In the Philippines in 1967-70 the state funds designated for the private sector amounted to 10 per cent of the total state appropriations for development purposes.<sup>2</sup> In many developing countries state organisations (see table on p. 117) are the vehicles of state policy in financing key industries of the private sector.

Various tax privileges for private companies operating in new industries have become widespread. In Mexico the 1954 Act fully or partly exempted from the payment of taxes private entrepreneurs in the metallurgical, metal-working, chemical, textile and some other industries. They received the right not to pay taxes for a number of years (5-10). The government publishes annual lists of the "essential" goods the producers of which enjoy various privileges.<sup>3</sup> In Thailand, Malaysia, Singapore and the Philippines private enterprises with "preferential" status are given tax exemption for a minimum of five years and other privileges.<sup>4</sup> Other Asian, African and Latin American countries apply similar measures.

Since private industry in most developing countries increasingly uses imported industrial raw materials, intermediate products, machinery and equipment, the establishment of lower import duties for these groups as compared with duties on manufactured consumer goods is an important part of the government policy of stimulating its development.

<sup>1</sup> *Ekonomika promyshlennosti* No. 10, 1965.

<sup>2</sup> *Economic Survey of Asia and the Far East* 1966, p. 39.

<sup>3</sup> See A. A. Pavlenko, op. cit., pp. 12-13.

<sup>4</sup> *Economic Survey of Asia and the Far East* 1971, pp. 74-75.

Main State Institutions Helping to Finance Development Plans in Selected Countries<sup>1</sup>

Country	Name of Institution	Year of establishment	Ownership	Nature of Activity
India	Industrial Finance Corporation (IFC)	1948	51 per cent public	Between 1948 and 1964 it financed projects accounting for about one-third of net investments in the private sector
	State Finance Corporation	1953	51 per cent public	Long-term loans up to 20 years to key industries in private sector
Industrial Development Bank (IDB)	Development Bank	1964	Public	Finances new projects in key industries
	Pakistan Industrial Development Corporation	1952	72 per cent public	Finances private enterprises in heavy engineering and chemicals and other key projects
Pakistan	Industrial Development Bank (IDB)	1961	51 per cent public	Finances private enterprises within the framework of the development plan
	Venezuelan Development Corporation (CVF)	1946	Public	Finances export industries—users of domestic raw materials

<sup>1</sup> "Implementation of Development Plans: Problems and Experience"—UN. *World Economic Survey* 1966, Part I, 1967, p. 45.

The state may also indirectly subsidise the private sector by supplying private industry with goods and services produced at public enterprises or by becoming a steady consumer of goods of the private sector at prices profitable for the latter (for example, building materials, chemicals, the output of metalworking and engineering, and so on). The scale of such subsidising depends on the price policy in each country.

The allocation policy of many countries, i.e., the provision of a definite sum of scarce foreign exchange to the private sector, represents one more component in the system of state stimulation and regulation of private enterprise in key industries. In addition to these measures, government policy with regard to private capital includes the sectoral licensing of imports, regulation of the influx of foreign capital and the establishment of mixed enterprises in important industries, various state guarantees to private enterprises, diverse forms of encouraging private industrial exports, and so on. The regulation of private foreign investments should be specially noted. Almost all developing countries have special legislation which defines the spheres for the investment of foreign capital.

Many of the economic forms of regulating the private sector examined above are specified with regard to foreign investments; in some cases they are given special privileges, in others, on the contrary, additional restrictions are introduced. In capitalistically oriented countries, emphasis in applying all these measures is laid on encouraging and stimulating private enterprise. In many countries such measures were initially applied indiscriminately: privileges were given to entrepreneurs irrespective of the sphere of their activity. Of late the objective needs of economic development have been compelling many countries increasingly to employ economic measures in a differentiated way, to draw a distinction between enterprises in the productive and non-productive spheres and between enterprises located in different regions of a country. Such differentiation enhances the efficacy of the state policy in regulating the private sector.

In countries of a non-capitalist orientation stress in economic policy is laid on measures for restricting the activity of the private sector, which does not coincide with the national interests and the requirements of economic development. The state pays attention not only to economic but

also to social aspects of measures for regulating the private sector. Special attention is given to the policy in relation of artisans and handcraftsmen and small entrepreneurs who represent an important link in the national economy. The participation of the state in developing the traditional small-scale commodity sector, mobilisation and utilisation of its potentialities and resources is an important aspect of the industrialisation process.

In countries which follow a non-capitalist path, regulation of the private sector is achieved not only by administrative and economic measures of the government but also through changes in the socio-economic structure, the gradual extension of the public sector to all key spheres of the economy.

Greater government control over the activity of the private sector is an important gain for the progressive forces. But the scale of this control should not be overestimated. So far the efficacy of state regulation of the private sector is insignificant, especially in capitalistically oriented countries, where the private sector (with certain restrictions) continues to function on the basis of its internal laws and holds a place of its own in the process of economic growth and industrialisation.

Many facts attest to the limited effect of state regulation of the private sector. Fulfilment of the programmes of different countries (especially plans and programmes with a detailed breakdown of assignments by sectors) shows that in most cases the private sector exceeds all targets for capital investments and production in highly profitable industries (tobacco, alcoholic beverages, textile and others) and, as a rule, evades to meet the assignments for the development of heavy industries with a long period of return. There have also been instances of the stepped-up outflow of private capital abroad, the repumping of private capital from the productive sphere into the services and trade, despite various government restrictions.

There are a number of reasons for the limited results of state regulation of the private sector. The major one is the inconsistency and internal contradictoriness inherent in the socio-economic policy of developing countries, especially those which follow the capitalist path. In this context it should be noted that many plans and programmes are simply terminated in the middle of the term and are replaced by

new ones. Very often this occurs following a change of government (military coups or the election of a new government, and the like). Many relevant examples could be cited from the recent history of the Philippines, Sri Lanka, Iraq, Syria, Tunisia, Ghana, Dahomey, Togo and most Latin American countries. The hasty formulation of the development strategy, specifically industrialisation, without due consideration of a country's objective needs and potentialities often leads to its review or change. In the mid-1960s more than ten countries drew up "transitional" plans to rectify the mistakes made in earlier plans and programmes.

The inconsistency of economic policy in Asian, African and Latin American countries often stems from an underestimation of the importance of purposeful economic activity, the need for a consistent and scientifically based industrialisation policy. In many countries planning organisations have neither an appropriate status nor powers. Economic departments are often not subject to control of the planning committee. Many aspects of their activity are divorced from or run counter to the main provisions of the existing plans and programmes.

The scale and consistency of solutions to the various problems facing a country are determined in sharp class and political struggle and are included, among other things, in various assignments of development plans and programmes. But the struggle does not end with their adoption; it is continued in new forms. Moreover, in the course of development many circumstances bring to the fore new problems or lend unusual urgency to matters which were regarded as secondary in the past (for example, an increase in the deficit of the trade or payments balance, greater budget instability, worsening of the unemployment problem, and so on). As a result the policy is revised and changed continuously. Measures which even during the formulation of the development plans and programmes were not duly co-ordinated reveal still greater discrepancies as these plans are carried out and the economic policy is spelled out. This is clearly demonstrated by many instances of uneven fulfilment of targets by different sectors and increasing underemployment of productive capacities.

Economic realities in developing countries offer many instances of flagrant lack of co-ordination between different aspects of economic policy. In the 1960s, for example, a

number of developing countries adopted customs and other measures restricting the importation of luxury goods with the object of saving foreign exchange. At the same time these countries pursued a policy of encouraging foreign investments which often presupposed renunciation of strict control over the areas of investment. Since the import of luxury goods was limited, and the incomes of the propertied strata were rising fast, prices of luxuries began to spiral almost everywhere and their local production held out the promise of big profits. As a result a substantial part of foreign investments were channelled into the production of luxury items which are of no significance for national economic progress.

At times an inconsistent policy results from administrative inefficiency and shortcomings in formulating development plans and programmes. But the main reasons are the intrinsic contradictions of the process of eliminating economic backwardness and the fact that developing countries cannot solve all their urgent problems in a short time.

The efficacy of administrative and economic regulation measures mentioned above, as a rule, is not high because small scattered enterprises whose activity it is difficult for the government to control predominate in the national economy. Moreover, in countries which encourage private enterprise the laws and decrees regulating the relevant activities contain many loopholes for circumventing the restrictions.

A case in point is the taxation policy which is regarded as one of the most important means for regulating private enterprise. In principle tax rates should stimulate some types of activity and restrict others. This is done but only to a certain extent. More often, however, the possibilities of the taxation policy are very limited. With the great fragmentation of production and the predominance of small entrepreneurs taxes are practically not collected from a big part of the economy. Corruption, the concealment of incomes and non-payment of taxes have become widespread. According to estimates of American economists, in Latin America governments fail to receive from 50 to 60 per cent of the potential revenue as a result of tax evasions.<sup>1</sup>

<sup>1</sup> *Business Week*, February 23, 1963, p. 68.

In India the extent of tax evasion was almost equal or even greater than what was being collected.<sup>1</sup> Clearly, if taxes are not paid, the taxation system cannot be an effective regulator of private enterprise.

In an effort to raise the efficacy of their administrative and economic measures many governments are intensifying bureaucratic control. But in view of the great fragmentation and the large number of enterprises, and in the almost complete absence of reliable accounting, such measures have little effect: quite frequently, the officials, auditors and controllers sent to the localities merely become participants in sharing the concealed incomes. The efficacy of control could be substantially enhanced by various forms of public and workers' control. But the ruling circles in most developing countries are afraid to employ such measures and they have been applied to a certain extent only in a few countries of socialist orientation.

Measures taken with a view to improving a country's general economic situation, in particular the structure of the home market, exert a much greater impact on the activity of private enterprise in economically backward countries. Government measures of this type (even those not aiming to influence the pattern of the economy) had this effect in colonial and dependent countries at the end of the 19th and early 20th centuries. The introduction of import duties (even those for revenue purposes only) often creates attractive conditions for the building of individual enterprises in a country. The rapid growth in the number of civil servants, and other persons working for hire, helps to extend the market of consumer goods, uneven earnings greatly influencing the structure of this market, the share of luxury goods in it, and so on. Limited government economic measures in a free-market economy have long since become a feature of developing countries.

In recent decades governments in Asia, Africa and Latin America have been increasingly resorting to measures taken with the express purpose of regulating the activity of private enterprise. In most cases the approach to assessing the consequences of government economic measures is very narrow. As a rule, these measures are evaluated and examined

<sup>1</sup> G. S. Sahota, *Indian Tax Structure and Economic Development*, Delhi, 1961, p. 41.

only in the context of the attainment of the tasks directly stated. But the experience of developing countries demonstrates that various state administrative, fiscal and other measures often touch off other unforeseen processes as side effects. These processes facilitated by the lack of co-ordination and inconsistency of economic policy have serious implications and take place in almost all developing countries. For example, in some West African countries the reduction of prices for medicines or foodstuffs, or certain household goods did not so much improve the material condition of any segments of the population as helped to create favourable conditions for speculators and smugglers who profited by differences in prices between countries. In some African and Asian countries the governments restricted capital investments in certain secondary branches expecting thereby to increase the influx of resources into key industries. Instead, private capital investments rose in trade, financial operations, the building of villas and transfers of money abroad were stepped up. Here is one more example. In conditions of swiftly growing state capitalism the position of individual enterprises is increasingly determined by the political connections of the owner, his ability to obtain a profitable contract or buy raw materials on privileged terms; in these conditions the economic performance of an enterprise often does not have its former significance. Broad strata of the national bourgeoisie are concentrating on arranging contacts with government officials, on engaging in petty politicking, and so on. This to a certain extent also explains the low economic performance indicators of many private enterprises.

The side effects of government economic policy measures are a highly important factor determining many economic processes in Asian, African and Latin American countries. Describing the situation in India, the *Far Eastern Economic Review* said: "Not only has the economy refused to take the course charted for it by bureaucratic planners, but it has also developed 'hidden' sectors which work unknown to Delhi's planners. Black money, black banking and even black insurance thrive on funds attracted to and created by a host of economic activities which have grown up in defiance of the laws of India."<sup>1</sup>

<sup>1</sup> *Far Eastern Economic Review*, Hongkong, August 29, 1968, p. 584.

Similar processes on a varying scale, engendered but not foreseen by numerous unco-ordinated measures of the state, are observed in most developing countries.

At present these countries require not only more efficacious but also more thoroughly conceived, purposeful and harmonised measures designed to transform the pattern of the economy. Only such transformation (and not random attempts to influence some features of the economy or aspects of the activity of the private sector) can create conditions for the truly effective regulation of this sector and its subordination to national interests and industrialisation tasks.

It is well known, for example, that the limits of the home market are constantly impelling businessmen to engage in commercial, money-lending or speculating activity, and not in production. In many cases expansion of the home market (through a consistently democratic land reform, abolition of the dominance of landowners and latifundists, co-ordinated development of industry, and so on) could provide a much more effective means for channelling local private capital into the productive sphere than various stimulating or prohibitive taxes, administrative measures, and so on.

At the same time great differences in incomes produce big heterogeneity in the composition of the demand and, consequently, hamper the building of modern industries which have to organise production for a big market.

Consistent democratic changes, aimed at restricting the propertied strata and promoting a more even distribution of incomes, would create a larger home market with a comparatively homogeneous range of goods. Thereby real prerequisites would be created for increasing investments in industry and building modern factories.

#### CHAPTER IV

#### INDUSTRIALISATION AND THE MARKET

The market holds a special place in the complex of economic factors influencing the development of the national economy in Asian, African and Latin American countries. A consequence of commodity production, the market acts as a natural gauge of its development. At the same time, expanding together with the economy, the market itself exerts a serious influence on economic growth. In general outline this influence is displayed in the interconnection of the scale of production and the size of the market. The wider the market, the bigger the scope it provides for the development of the productive forces. And conversely, a narrower market correspondingly restricts the possibilities of economic growth.

In the dialectical interaction of production and the market, the paramount role belongs to the former because the capacity of the market, too, depends on its scale. But the structure of social needs, reflected in the market by the effective demand, is determined not only by output as such or the assortment of the produced commodities. The dynamics of these needs most directly depends on changes in the social composition of the population and the system of distributing the social products which accompany economic growth. Their shaping is also influenced by the environment. Lastly, they are also affected by the economic policy of the state.

Regardless of the factors which determine the social needs in every given span of time, as long as these requirements are expressed in a real effective demand, they begin to exert a direct (or indirect) influence on the pattern of production itself, which cannot develop without the prospects of selling the produced goods. If there are no such prospects, prices

drop. And if the producer (under capitalism, the entrepreneur) or society as a whole is unable to compensate for the resultant losses, production is inevitably curtailed and closes down eventually. If there is a shortage of a certain type of goods their prices, on the contrary, tend to rise. This stimulates a further expansion of output until it reaches a level exceeding the real effective demand. Then again, owing to a drop in prices production begins to decline, and so on and so forth. This is how in principle the market regulates, on the basis of the law of value, the main proportions of the capitalist commodity economy. An important part in this mechanism is the competition of individual commodity producers because the level of market prices depends not only on the general relationship between the supply and demand, but also on differences in the value of the goods offered for sale.

In addition to other factors, the volume and structure of the effective demand, furnishing an answer to the question, what concrete production inputs and on what scale can be compensated on an equivalent basis, make it possible to evaluate the objective needs of economic development. At the same time the demand, as represented by "the need for commodities in the *market*",<sup>1</sup> when comparing it with the results of production, characterises the degree of current self-sufficiency of the national economy of each developing country as regards the required elements of the reproduction process and, consequently, the measure of its participation in the international division of labour. Thus an analysis of the interaction between supply and demand, the unity of which forms the commodity market, can furnish the key for assessing the available potentialities and possible trends of further economic growth and serve as a step for disclosing the general mechanism which determines the course of industrialisation of economically backward countries.

To get an idea of the influence exerted by market relations that take shape in the course of economic development on the industrialisation of developing countries, it is necessary to examine the situation both in the home and foreign market. A comprehensive approach to this question is dictated by the growing interconnection and interpenetration of the internal and external conditions of economic growth deter-

mined by the development of the international division of labour and the objective tendency towards ever greater internationalisation of economic relations. If we view the commodity market as the "scene of action"<sup>2</sup> of the exchange process which makes up the complex of conditions upon which the realisation of the market product, i.e., its compensation in value and the material form, depends, special interest is acquired by the factors that determine the change and composition of the effective demand, on the one hand, and the possibilities of meeting it with commodities, on the other.

#### 1. DISTINCTIONS OF EMERGENCE OF THE MARKET IN ECONOMICALLY BACKWARD COUNTRIES

The production of agricultural and mineral raw materials for export has played an important, often decisive part in the shaping of the home market in Asian, African and Latin American countries, and continues to do so in many of them. Historically, the organisation of such production usually preceded the development of commodity-capitalist relations. Industrially backward countries were drawn into the system of the international capitalist division of labour regardless of the internal needs of their development. In effect, this process was dictated by the production and consumption needs of the more developed capitalist states. As a result the export sector in the economy of developing countries grew into a sector in its own right.

On the one hand, its birth stimulated the growth of commodity-money relations in the local economy and served as a basis for transplanting capitalist relations of production in local conditions (often by forcible methods). It was this that Lenin had in view when he stated that with the export of capital "capitalist production is being transplanted to the colonies at an ever increasing rate".<sup>2</sup> On the other hand, since the export sectors developed without a connection with internal economic processes, the socio-economic effect of their growth for the economy of the colonies and dependencies was largely localised. Drawn into the system of the world capitalist production as suppliers of mineral and agricultural

<sup>1</sup> Karl Marx, *Capital*, Vol. I, Moscow, 1959, p. 105.

<sup>2</sup> V. I. Lenin, *Collected Works*, Vol. 22, p. 337.

<sup>1</sup> Karl Marx, *Capital*, Vol. III, Moscow, 1959, p. 185.

raw materials, the colonies and dependencies turned into markets for the sale of the output of industrially developed states. As a result, the world capitalist market not only absorbed the entire or almost the entire output of the export sectors, but also attracted the lion's share of the local effective demand.

A situation arose which to a certain extent was similar to the one which had existed prior to the end of the 19th century in the economy of Archangel Province in tsarist Russia. In his work *The Development of Capitalism in Russia* Lenin wrote: "One of the principal local products, timber, was until recently exported mainly to England. In this respect, therefore, that part of European Russia was a foreign market for Britain without being a home market for Russia."<sup>1</sup> But while the building of a railway up to Archangel turned the industry of this province into an organic component of Russia's national economy, in Asian, African and Latin American countries the process of consolidating export production with the local economy has dragged on for many decades.

B. Higgins, an American scholar, discussing foreign plantations in Southeast Asia, remarked that "much of the management, finance, distribution, transport and processing was a part of London and Amsterdam rather than Singapore and Djakarta".<sup>2</sup> "The plantations," G. Myrdal, a noted Swedish scientist, wrote, "were therefore more closely connected to the Western economy than to the country of their location—their investments stimulated demand in the Western economies much more than in South Asia."<sup>3</sup> Foreign investments in the extractive industry of Latin America, to use the expression of E. Zimmerman, were made in the territory but not in the economy of the debtor countries.<sup>4</sup> Lastly, almost the entire surplus product created in the export sectors, with the exception of the part of the profits reinvested in these sectors and in the infrastructure serving them, was exported from the colonies and dependent countries.

<sup>1</sup> V. I. Lenin, *Collected Works*, Vol. 3, pp. 594-95.

<sup>2</sup> Benjamin Higgins, "Western Enterprise and the Economic Development of Southeast Asia: A Review Article"—*Pacific Affairs*, New York, March 1958, p. 75.

<sup>3</sup> Gunnar Myrdal, *Asian Drama. An Inquiry into the Poverty of Nations*, Vol. I, New York, 1968, pp. 449-50.

<sup>4</sup> See Erich W. Zimmerman, *World Resources and Industries*, New York, 1951, pp. 129-30.

Export-oriented small-scale peasant production could not create big possibilities for the growth of the home market in dependent countries. The money receipts of these farms largely went to pay the numerous levies exacted by the feudal-tribal upper crust or were appropriated by the local money-lenders and merchants. Added to it was the burden of taxes imposed by the colonial administration in conditions of direct political enslavement of peasants. Peasants working for export were unable to break the shackles of traditional production methods. Hence the low productivity and the insignificant demand for producer goods.

The expansion of output in such farms, Myrdal writes, "ordinarily turned into a rising demand for food by the growing indigenous population. The profits from the export trade went almost entirely to foreign commercial firms and were regularly remitted abroad. Even when such profits and fresh investment capital were used to build up ports, roads, and other transport facilities, the necessary capital equipment was imported. The net effect was to arrest the cumulative process short of the point at which new demand in the non-agricultural sector, and in particular demand for home-produced manufactured goods, would have been generated. The rising demands for different kinds of capital equipment and implements of all sorts were satisfied principally from foreign sources, leaving traditional things to be produced in traditional ways by the rural community".<sup>1</sup>

Since the colonial and dependent countries were unable to regulate in their interest the influx of foreign goods, the emergence or growth (where it already appeared) of other types of commodity and commodity-capitalist production relying on the social division of labour in the local economy was seriously impeded because they were defenceless in face of the competition of cheaper imported goods. When the economic mechanism did not fully function, the same results, in fact, were achieved with the help of the colonial administration or military-political and diplomatic pressure on formally sovereign but dependent states. In these conditions, sectors unconnected with exports stagnated at best. Even more frequently production continued to grow within the bounds of the natural economy. The resultant situation was

<sup>1</sup> Gunnar Myrdal, *op. cit.*, p. 449.

consolidated by the repumping to capitalist countries of a considerable part of the local surplus product and also by the direct plunder of the wealth of the colonial territories.

Under these circumstances the growth of the general economic potential of developing countries was not accompanied by an adequate expansion of the local market. Therefore its further development had to be oriented on exports to a great extent, perpetuating the one-sided nature of the economy of Asian, African and Latin American countries. It goes without saying that the export of raw materials facilitated the creation of prerequisites for forming here a more diverse economic complex based on the division of labour in the economy of these countries themselves.

Similar prerequisites were also created by the spontaneous growth of other socio-economic structures. Although this development was observed everywhere, it was more pronounced in big countries where the production of raw materials for export could not acquire such importance as in small states. But the general economic potential of colonies and dependent countries increased very slowly. Moreover, the use of these prerequisites was hampered in the absence of forces that could end or at least partly neutralise the unfavourable trends generated by the market mechanism within the bounds of the international capitalist division of labour and more or less effectively resist the predatory aspirations of foreign capital. I. R. Sinai, an Indian economist, emphasises that Western imperialism provided the developing countries with "no more than a topdressing of modernization—a tiny intellectual elite, developed export-import sectors, a few big cities and communications geared to foreign trade, little industry, and no transformation of farming for local consumption. Modernity could become an ambition in such countries, but not a reality. Behind the façade of modernity there was slow retrogression".<sup>1</sup> This was the basis from which Asian, African and Latin American countries had to begin independent development.

Extreme unevenness of their economic growth, which is directly linked to, and is a consequence of, their general socio-economic backwardness, is an important factor in the shaping of the home market in developing countries. This

<sup>1</sup> Quoted after Andrew M. Kamark, *The Economics of African Development*, London, 1967, p. 242.

unevenness complicates the formation of a home market as a complex of conditions ensuring the adequate realisation of the social product which, according to Marx, is determined "by the proportional relation of the various branches of production and the consumer power of society".<sup>1</sup> First, this is linked with the sectoral disproportions and, second, the slow growth of the general "consumer power of society".

Because of the general socio-economic backwardness and uneven development a certain, often still quite considerable part of the gross domestic product of developing countries is created in the natural economy, i.e., is consumed directly by the producer without assuming the commodity form and, consequently, has no bearing on the economic potential of the market. On the threshold of the 1960s the natural economy provided on the average up to one-third of the gross domestic product in developing Africa (an ECA estimate).<sup>2</sup> Naturally, these average indices conceal essential differences between individual countries. In the Arab Republic of Egypt, for example, the natural economy accounted for one-twentieth of the gross national product at the beginning of the 1960s; in Gabon, Zaire, Zambia and Rhodesia, about one-tenth; in Ethiopia, Upper Volta, Mauritania and Niger, one-half and more.

In the agriculture of India where in the 1950s more than 50 per cent of the national income was created, the marketable part amounted to an average of 30 per cent of the gross output.<sup>3</sup> If we assume that non-commodity production takes place only in agriculture (in reality it plays no little part in the service sphere, building and in the handicraft and cottage industries) we find that during the last decade the natural economy produced at least 35 per cent of the country's national income or almost as much as in the African continent on the average.

India, though she has a highly developed industry in terms of gross output, belongs among Southeast Asian countries with an average development of commodity-money relations (for their share in the national economy). That is why the given estimates concerning the role of the non-commodity

<sup>1</sup> Karl Marx, *Capital*, Vol. III, p. 239.

<sup>2</sup> UN, *Economic Bulletin for Africa*, Addis Ababa, 1964, Vol. IV, No. 1, Part B, p. 42.

<sup>3</sup> G. C. Jangir, *Our Economic Problems*, Delhi, 1965, p. 158.

sector in the Indian economy characterise the situation in Southeast Asia as a whole. This conclusion is corroborated by the fact that at the end of the 1950s India accounted for almost half of the total domestic products of all developing countries in this region.<sup>1</sup>

The approximately equal share of the marketable product in the economy of the developing Africa and Southeast Asia is also demonstrated by a small difference in their per capita income. The difference between them is that in Southeast Asia where the countries with the biggest populations are located endogenic growth factors have exerted a much greater influence on the development of commodity production than in Africa. For states like India, Pakistan or Indonesia the home market naturally was, and is, of more essential significance than for small countries like Chad or the Ivory Coast. It is not by accident that at the beginning of the 1960s Southeast Asian countries sold in foreign markets on the average 11 per cent of their gross domestic product and independent African states 19 per cent.<sup>2</sup>

Whatever the share of non-commodity production in the gross domestic product of developing countries, by itself it does not provide a full picture of the limitations imposed on the growth of their market potential by the prolonged preservation of natural and semi-natural forms of the economy. To elucidate on this problem it is also necessary to consider what part of the local population obtains the means of subsistence from non-commodity production because, other conditions being equal, the scale of the real effective demand for consumer and, consequently, also producer goods depends ultimately on the size of the population drawn into the sphere of commodity-money relations. "If half or more of the population economically do not exist, or are unemployed, and if only, say, 20 per cent of the remainder can exert a really effective demand for goods," Lauchlin Currie, Professor of Economics at the National University of Colombia, writes, "the market is considerably smaller than appears at first sight."<sup>3</sup> This is especially felt in small countries which make up a majority of the developing states.

<sup>1</sup> UN. *The Growth of World Industry 1938-1961*, p. 333.

<sup>2</sup> UN. *World Economic Survey 1963*, Part I, p. 19.

<sup>3</sup> Lauchlin Currie, *Accelerating Development. The Necessity and Means*, New York, 1966, p. 45.

Owing to the difference in labour productivity, the big share of commodity production in the economy of individual Asian, African and Latin American countries does not prove that commodity-money relations are widespread there. For example, in Zambia, which holds one of the leading places in Africa for per capita income and marketable output, the bulk of the rural population which makes up 80 per cent of the economically active population is engaged in natural or semi-natural farming.<sup>1</sup> A similar picture, in effect, is typical of most other African and Asian countries which supply mineral raw materials to the world market. A narrow specialisation in the export of mineral raw materials leads to similar consequences in Latin American states, although they are usually not so pronounced because commodity-capitalist forms of the economy are more developed in the Latin American continent.

In countries which export agricultural commodities whose production involves more manpower, the size of the population drawn into commodity-money relations is often somewhat higher than among countries exporting mineral raw materials.<sup>2</sup> At the same time owing to the inadequate technical facilities in this sector in some cases or its weak links with the rest of the economy in others, the export specialisation of agriculture has not basically solved the question of widely shifting the economy of developing countries onto commodity-money lines either. In the mid-1960s more than three-fourths of the entire gainfully occupied population in Kenya was engaged in the natural or semi-natural economy; in the Sudan, not less than four-fifths, i.e., almost as much as in Zambia.<sup>3</sup> No statistics are available on the share of the population in other African countries which produce for direct consumption. But, according to the authoritative statement of A. M. Kamark, director of the Economic Department, International Bank for Reconstruction and Development, "for the average African, the goods and services produced within his household or by the families of his kin are still more important and include more of the necessities of life than the goods he buys or sells".<sup>4</sup>

<sup>1</sup> UN. *A Survey of Economic Conditions in Africa 1960-1964*, p. 58.

<sup>2</sup> For details see *Mirovaya ekonomika i mezhdunarodniye otnosheniya* No. 6, 1962, p. 89.

<sup>3</sup> See *World Marxist Review* No. 10, 1969, p. 18.

<sup>4</sup> Andrew M. Kamark, op. cit., p. 33.

Even in Latin America where the commodity forms of the economy are much more developed than in Africa and Asia, the share of the gainfully occupied population not connected with the market is quite high. At the beginning of the 1960s, in Argentina, Uruguay and Chile alone about one-tenth of the economically active population was engaged in the natural economy. During the same period in Venezuela one-sixth of the economically active population subsisted on account of production not linked with the market; in Mexico and Panama more than one-fifth; in Brazil more than one-fourth; Colombia and Peru almost three-tenths; Ecuador one-third; Guatemala and Paraguay almost two-fifths; and in Bolivia more than two-fifths.<sup>1</sup>

A big part of the gainfully occupied population in developing countries consists of handicraftsmen, artisans and peasants. The small producer, who by his activity personifies a transitional stage from the natural to the commodity economy and from simple commodity to commodity-capitalist production, is one of the most typical figures in African and Asian society. He also plays a big part in Latin American countries.<sup>2</sup>

In the absence of statistics it is practically impossible to estimate the share of persons only partly linked with the market. An idea can be gained if we consider the following circumstances. In Latin America, notwithstanding the high degree of agriculture's commercialisation, production for the immediate needs of the peasants played a more important part in their life than production for the market at the beginning of the 1960s. In the opinion of W. C. Gordon, an American researcher, "commercial agriculture is relatively more important in establishing the tone of Latin American commercial and financial relations with the outside world".<sup>3</sup> It

<sup>1</sup> Compiled from data on the share of the rural population linked to the market and the share of the gainfully occupied population engaged in agriculture (see Y. Kleyer, *Analiz obshchestvenno-ekonomicheskikh struktur stran "tretyego mira"* [Analysis of the Socio-Economic Patterns of Third World Countries], Moscow, 1968, pp. 60-61; *World Marxist Review* No. 1, 1969, p. 33).

<sup>2</sup> See *Klassy i klassovaya borba v razvivayushchikhsya stranakh* (Classes and Class Struggle in Developing Countries), Vol. 1, Moscow, 1967, pp. 29-31, 356-58, 365-67; *Mirovaya ekonomika i mezhdunarodniye otnosheniya* No. 4, 1969, pp. 53-60.

<sup>3</sup> Wendell C. Gordon, *The Political Economy of Latin America*, New York-London, 1965, p. 279.

should be added that in that period about half of the economically active population of the continent was engaged in agriculture.<sup>1</sup>

That the economically active population in industrially less developed countries is involved in the market economy to a limited extent only is also confirmed by the usually weak development of the institution of hired labour. According to our estimates, the share of factory and office workers in the gainfully occupied population of all developing countries did not exceed one-third at the beginning of the 1960s.<sup>2</sup> Work for hire was comparatively widespread only in Latin America, where according to estimates of R. Zinov'yeva and L. Fridman, Soviet economists, it encompassed 56 per cent of the gainfully occupied population in 1960 and more than 60 per cent in 1968. True, such a high figure was reached by far not in all countries of the continent. In Mexico, Argentina, Uruguay and Chile the share of hired labour in the gainfully occupied population was 70-73 per cent; in Venezuela, about 67 per cent; and in Bolivia, Guatemala, Honduras, the Dominican Republic and Panama it ranged from 30 to 45 per cent.<sup>3</sup>

In Africa and Asia the institution of hired labour is much less developed. At the beginning of the 1960s the number of persons working for hire did not exceed 16-17 per cent of the gainfully occupied population in the African continent. In the more developed states of North Africa their share reached an average of one-third and in the West African countries only 7 per cent. During the same period, 29-30 per cent of the economically active population of developing Asian states worked for hire. At the same time the figure was about 50 per cent and perhaps even more in Sri Lanka and Malaysia.<sup>4</sup>

Another important manifestation of uneven economic development which seriously affects the home market of devel-

<sup>1</sup> *International Labour Review*, Vol. 98, No. 4, Geneva, October 1968, p. 332.

<sup>2</sup> See *World Marxist Review* No. 3, 1969; *International Labour Review*, February 1966, pp. 166-67; October 1968, pp. 332-33.

<sup>3</sup> See *Mirovaya ekonomika i mezhdunarodniye otnosheniya* No. 4, 1969, pp. 59-60.

<sup>4</sup> *Mirovaya ekonomika i mezhdunarodniye otnosheniya* No. 4, 1969, p. 59; *International Labour Review*, December 1964, p. 562; February 1966, pp. 166-67.

oping countries is the inflated growth of trade and the non-material services. This is expressed both in the inordinately high share of trade and services of a non-material character in the gross product as compared with the achieved level of economic growth and in the diversion of a considerable part of the economically active population into this sphere.

For all their importance in the existing hierarchy of social needs, the services nevertheless are a secondary element. First place is held by needs of a physiological order. The role of services rises only as the economy advances ensuring the satisfaction of all the primary needs. Economic growth stimulates the demand for services and creates the material conditions for the development of this sphere of activity. But in Asian, African and Latin American countries this order of priorities in the development of material and non-material production has been seriously upset by entangled socio-economic problems. The interplay of society's planned efforts and the operation of spontaneous market forces, determined by the interaction and interdependence of all aspects of social development and the huge need for different services, results in that this sphere often gains priority over other sectors of the national economy.

Notwithstanding the general economic backwardness, in the mid-1960s the share of trade and non-material services in the gross domestic product of young states in Southeast Asia and in Africa was about one-third on the average. In Latin America the sphere of non-material production accounted for more than 40 per cent of the gross domestic product, while in West European countries it averaged only 38 per cent.<sup>1</sup>

It should also be emphasised that because of the specific features of the internal socio-economic pattern and the external conditions of development, employment in trade and the services, as a rule, grows faster than in other sectors of the economy of developing countries. Between 1950 and 1965 the share of the gainfully occupied population employed in trade and the services rose from 20.5 to 25.9 per cent in Latin America. The share of trade and the services in total employment in North African countries rose on the average

<sup>1</sup> UN. *Statistical Yearbook 1968*, pp. 29-31; UN. *A Survey of Economic Conditions in Africa 1960-1964*, pp. 26-27.

from 14.1 per cent in 1950 to 17.7 per cent in 1960.<sup>1</sup> Moreover, since the expansion of trade and the services in the former colonies and dependent countries is linked above all to the development of the market economy, the share of these sectors in providing work to persons drawn into the commodity-money sector is higher than their share in total employment of the gainfully occupied population. According to data for the 1960s, for example, in Kenya the former exceeded the latter four times, in Paraguay by about 70 per cent, in Colombia, Brazil and Peru by 40 per cent, and Mexico by 30 per cent.<sup>2</sup>

With the weak development and comparatively small commercialisation of material production, the accelerated growth of trade and the services, the incomes of which are received primarily in the money form, deepens the disproportion between the local supply and demand for the material components of consumption. This disproportion stands out very clearly if we compare the sphere of non-material production only with the commodity-money sector of the economy. Thus, in developing African and Southeast Asian countries where at the beginning of the 1960s the non-commodity forms of the economy accounted on the average for about one-third of the gross domestic product, about half of all the money incomes was concentrated in trade and the services.

Such development and the consequent distribution of incomes result, as rightly emphasised by W. A. Lewis, a British economist, in a shortage of commodities which dictates an expansion of import. If the government does not take the necessary balancing measures, inflation appears. An increase of imports without a corresponding growth of exports leads to a balance-of-payment deficit.<sup>3</sup>

This is only one side of the problem. The other is that the unproportional (as compared with the existing economic potential) development of trade and the services warps the structure of the home market in developing countries. Since

<sup>1</sup> See *Mirovaya ekonomika i mezhunarodniye otnosheniya* No. 4, 1969, p. 52; *International Labour Review*, October 1968, p. 333.

<sup>2</sup> See Y. Kleyer, op. cit., pp. 60-61; *World Marxist Review* No. 1, 1969, p. 33; Republic of Kenya. *Development Plan 1966-1970*, Nairobi, 1966, pp. 83, 100-02.

<sup>3</sup> See W. Arthur Lewis, *Development Planning. The Essentials of Economic Policy*, London, 1966, p. 168.

the share of variable capital in these spheres on the whole is much higher than in the sphere of production, a correspondingly greater share of their income assumes the form of an effective consumer demand. At the same time the effective demand for the means of production which plays the decisive part in the development of the home market is slowed down. This consolidates the one-sided, if it can be put that way, preferentially consumer nature of the economy inherited by developing countries from the past. Of course, it is a matter only of relative preservation of the one-sided economic patterns. As the economic development level of industrially backward countries rises so do the material prerequisites for the diversification of their economy by building up industries which provide producer goods. But with the diversion of an unproportionally big part of the resources into the sphere of trade and the services this process assumes involved and painful forms.

## 2. DISTRIBUTION OF INCOMES AND THE MARKET OF MANUFACTURED GOODS

The dialectics of the interaction of industrial growth with the development of the home market demand an analysis of changes in the volume and structure of this market which are stimulated by the course of industrialisation itself and the attendant socio-economic processes. Both the changes in the composition of the goods supplied and the development of the structure of the effective demand equally require such an analysis. To ascertain the scale and the nature of the social needs arising during industrialisation which local production ultimately has to consider directly or indirectly, we propose to devote this section to examining the changes in the effective demand.

Data on the gross domestic product furnish an idea of the capacity of the home market in Asian, African and Latin American countries. In the mid-1960s total consumption of the final product designated for productive purposes and consumption, measured by the magnitude of the gross national product, exceeded \$5,000 million only in 11 (14.5 per cent) developing countries out of 76 for which the necessary statistics are available. In another 11 (14.5 per cent of the developing countries) consumption of the final product was estimated at sums ranging from \$2,000 million to \$5,000 mil-

lion; in 12 (16 per cent of the countries), from \$1,000 million to \$2,000 million and in the other 42 (55 per cent of the countries) it was less than \$1,000 million.<sup>1</sup>

In the present epoch what can a gross product of \$1,000-2,000 or even \$5,000 million mean for an entire state if the receipts of many international monopoly associations from the sale of their output exceed \$10,000 million annually. Moreover, the real capacity of the market for the final product in most developing countries is smaller than their gross domestic product. By excluding from this product all non-commodity production we find that the capacity of the home market of developing countries, as compared with modern standards of production, is even more limited. A comparison of developing countries with industrial capitalist states is highly indicative in this respect.

The scale of the total effective demand for the final output of all types in about 30 African countries is below that of a European city with a population of 250,000. Ethiopia, with a population of 25 million, at best can be compared with a European city having a population of 400,000. The real purchasing power created in the national economy of India with its population of 500 million, measured by the consumption of the final product, will hardly reach the level of Sweden inhabited by eight million people.

Moreover, formal equality in the size of the effective demand for the final product of the industrially developed and developing states is by no means tantamount to equal possibilities of consumption and, consequently, of production of manufactured goods for the home market. The real effective demand of the Swedish economy for this category of goods because of its composition opens up today wider prospects for such production than the economy of India. Similarly, even though the absolute size may be equal, the qualitative content of the effective demand for the final product of, say, the Kenyan or Ethiopian economy has little in common with the purchasing power of the economy of tiny Luxembourg with a population of less than 300,000. From the viewpoint of needs backed by an effective demand the situation in Luxembourg is more favourable for the development of industry.

<sup>1</sup> UN. *World Economic Survey 1967*, Part I, p. 60; *Economic Survey of Africa*, Vol. I, p. 9.

The point is, as Lenin repeatedly stressed, that under capitalism the home market grows "not so much on account of articles of consumption as on account of means of production".<sup>1</sup> It goes without saying that the swifter increase of the demand for producer goods is not a monopoly of the capitalist mode of production. The determining role of the demand for means of production in shaping the home market in a country which is eliminating (or has eliminated) the burden of pre-capitalist production relations is merely a display of the main law governing extended reproduction, whose operation necessarily presupposes a swifter growth of the part of the social product designated for productive consumption.

A similar phenomenon, naturally, is also observed in the economy of countries which have discarded the colonial yoke and are intensively developing commodity and commodity-capitalist forms of the economy. But the concrete historical conditions of the embarkation of these countries on the road of independent development and the specific features of the socio-economic organism inherited from the past, make this process highly original. The low level and one-sided economic pattern limit the market and at the same time the local output of the means of production. Circulation in the market of constant capital is definitely limited, as Marx notes, "since constant capital is never produced for its own sake but solely because more of it is needed in spheres of production whose products go into individual consumption".<sup>2</sup>

Consequently, industries producing the means of production (for the home market) can develop at an accelerated pace only when personal consumption attains some minimal magnitude. Apparently, at the achieved level and the existing scale of commodity production, the total population and the share of the labour resources utilised in the commodity-money sector, the required minimum figure for a broad line of consumer goods so far remains beyond the reach of most developing countries. The complexity of the existing situation is also linked to the obvious tendency to enlarge the scale of economically efficient production. All this greatly raises the significance of the market of consumer goods which

<sup>1</sup> V. I. Lenin, *Collected Works*, Vol. 3, p. 54.

<sup>2</sup> Karl Marx, *Capital*, Vol. III, pp. 299-300.

is still the starting point for the further economic growth of many Asian, African and Latin American countries today. This conclusion is also confirmed by the fact that at the attained development level primary foodstuffs comprise the main part of the consumer fund in these countries. This is particularly apparent in the case of young African states where food accounted on the average for about 55 per cent of all personal consumption at the beginning of the 1960s.<sup>1</sup> It should also be noted that at a low per capita income the range of goods is narrow and the total quantity of consumed manufactured goods is not large.

The structure of consumption, unfavourable for the development of industry, changes only with a rise in the welfare of the population. In the absence of statistics on changes in the consumer demand in direct connection with the change of the per capita income, the relevant shifts in its composition can be traced by comparing family budgets of different social strata of a country or a group of countries for a set date. Thus, in the first half of the 1960s in the budget of Ghana urban dwellers, whose incomes are higher than those of rural inhabitants, food and beverages claimed up to 54 per cent of all the family expenses, and in rural localities, 60 per cent. In Malaysia the respective figures were 59 and 64 per cent and in Morocco 60 and 76 per cent. In Argentina, persons in the higher brackets spent 23 per cent of their budget for food and the group in the lower brackets up to 60 per cent.<sup>2</sup>

It goes without saying that changes in the composition of the demand could take place only as a result of priority growth of the expenditure on goods and services which are not prime necessities. But in most developing countries the consequent reduction in the share of the expenditure for prime necessities still takes place in conditions of a big growth in the absolute volume of such expenses. According to UNIDO estimates, between 1953 and 1963 the increase of per capita incomes in 9 developing countries by one-third led to a decrease in the share of the expenditure for food, beverages and tobacco in the average consumer budget

<sup>1</sup> UN. *A Survey of Economic Conditions in Africa 1960-1964*, pp. 30-31.

<sup>2</sup> UNIDO. *Industrial Development Survey*, p. 95 (ID/Conf. 1/46); *The Process of Industrial Development in Latin America*, New York, 1966, p. 122.

from 55 to 53 per cent.<sup>1</sup> At the same time the absolute increase in the expenditure for this group of goods absorbed nearly 47 per cent of the total increase in the private consumer expenditure in these countries.

As per capita income rises, not only the share of the expenditure for basic food needs decreases but the nature of these needs changes too: the consumption of cereals, bread, potatoes and sugar decreases, while the consumption of meat, including its higher grades, fish, fruit, and various delicacies rises. Moreover, the expenditure for the increasing volume of industrial labour and services connected with the manufacture and sale of the last category of foodstuffs grows. All this results in an absolute increase in the food expenditure. The demand for the second group of prime necessities represented by clothing, footwear and other personal articles, is subject to similar changes.

Strictly speaking, the composition of the private consumer expenditure, besides the level of income and the specifics of socio-economic development in each country, depends on the level and change of prices of individual consumer goods. Thus, the expenditure on foodstuffs in three out of every five developing countries was restrained by the greater increase in food prices in relation to the prices of other consumer goods in the years 1955-64. This was particularly the case in a number of countries in Latin America and Asia.<sup>2</sup> On the other hand, the food diet of the main mass of the population in many developing countries is still so small that its further reduction is practically impossible. In these conditions the growth of food prices often restricts the consumption of other goods. In Ghana, for example, the food expenditure in 1965 reached 61 per cent of all the personal consumer expenditures, as against 49 per cent ten years earlier. These shifts in the consumer budget of the Ghanaians were largely a result of the increase in food prices.<sup>3</sup>

In short, whatever the economic specifics of each developing country, it must take into account in its development the expansion of the demand for prime necessities and the qualitative shifts in the nature of these necessities. Otherwise, the permissible balance between supply and demand is upset. A

<sup>1</sup> UNIDO. ID/Conf. I/46, p. 92.

<sup>2</sup> Ibid.

<sup>3</sup> The Republic of Ghana. *Economic Survey, 1965*, Central Bureau of Statistics, Accra, 1966, p. 17.

shortage of some goods arises with an obvious surplus of others. Prerequisites are thereby created for inflationary tendencies and the expediency of a certain part of society's labour and material outlays is in doubt. At the same time the noted shifts in the composition of the demand set objective limits to economic growth and attest to the need of establishing an order of priorities in the development of each country.

While the market of producer goods depends on the nature of production itself (including sectors oriented on the foreign market) and also on the level and structure of consumption ensured through market channels, the composition of the effective consumer demand is determined above all by the system of distribution of money incomes which represent an equivalent of the created social product. With the growth of differences in the socio-economic forms of organisation and the technological level of different lines of production, the difference in its performance correspondingly rises. Simultaneously, the divergences in incomes of persons drawn into the orbit of commodity-money relations also widen. Other conditions being equal, these divergences are determined by the position of different groups and sections of the population in the social production system and also by the difference in the efficiency of its components.

"When discussing the relation between the growth of capitalism and of the 'market,'" Lenin stressed, "we must not lose sight of the indubitable fact that the development of capitalism inevitably entails a rising level of requirements for the entire population, including the industrial proletariat. This rise is created in general by the increasing frequency of exchange of products, which results in more frequent contacts between the inhabitants of town and country, of different geographical localities, and so forth. It is also brought about by the crowding together, the concentration of the industrial proletariat, which enhances their class-consciousness and sense of human dignity and enables them to wage a successful struggle against the predatory tendencies of the capitalist system."<sup>4</sup>

Within the framework of the commodity-capitalist sector of the economy, the development of which predetermines the general scale and pace of social stratification, incomes

<sup>4</sup> V. I. Lenin, *Collected Works*, Vol. 1, p. 106.

are naturally differentiated primarily along class lines—between the exploiters and the exploited. But this is only a part of the problem. The difference in the incomes of persons working for hire, too, is considerable and at times even tremendous, depending on the sphere, the skill and the position.

Salaries of the middle-level and especially the high-level specialists and executives, as a rule, are comparable with the world standards, while wages of lower-level personnel are in principle determined by the prevailing conditions of the less developed economy. That is why the incomes of the higher paid stratum are tens of times and at times 100 and even more times above the incomes of the main mass of employees. The following Ethiopian data shed light on the abyss separating the earnings of persons of the lowest and highest skill. In private firms and autonomous state institutions of the economic type (1965, Addis Ababa) the average monthly salary of persons of the first category (18 Ethiopian dollars) was almost 1/150th of the salary of persons in the second category (2,650 Ethiopian dollars).<sup>1</sup> Since the average incomes are calculated on the basis of wages less than 25 and salaries more than 1,500 Ethiopian dollars it is clear that the gulf between the highest and the lowest earnings is even deeper than shown by the average figures.

It should be stressed that the difference in earnings of persons working for hire in the highest and lowest categories still tends to rise. Thus, while in the first years after achieving independence, the salary of top personnel at private cotton textile mills in India was 77 times greater than the wages of an unskilled worker, eight years later it was 241 times greater. In the jute industry the ratio of the highest and lowest incomes during this period changed from 110:1 to 356:1.<sup>2</sup> These examples are by no means an exception. The vast gap between earnings of persons working for hire is one of the most typical phenomena in developing countries today.

There are also vast differences in earnings in many developing countries, depending on the location of an enterprise

<sup>1</sup> Imperial Ethiopian Government Central Statistical Office. *Ethiopian Statistical Abstract*, 1965, Addis Ababa, p. 15.

<sup>2</sup> *The Third Five-Year Plan and India's Economic Growth*, Allahabad, 1962, p. 54.

and also the nationality, race, age and sex.<sup>1</sup> Many scholars think that the differentiation in incomes is even higher than in developed capitalist states. According to preliminary estimates, ten per cent of the wealthiest citizens of Nigeria appropriate 50 per cent of the country's national income. Consequently, their annual income is almost ten times greater than the average income of the other 90 per cent of the population.<sup>2</sup> In Gabon a little over one per cent of the population, chiefly persons of non-African origin, account for one-third of private consumption in the country.<sup>3</sup> Studies of the Mahalanobis Committee show that in 1951-61 the poorest strata comprising 10 per cent of the population received only 1.3 per cent of India's national income, while 10 per cent of the wealthiest appropriated 40 per cent of the national income,<sup>4</sup> or 31 times more on the average.

No less, if not more staggering is the gap in incomes between the richest and poorer sections of population in Latin America. In states of this continent, the upper stratum comprising 2 per cent of the population appropriates 19 per cent of all the personal incomes, while the poorest half of the population receives only 16 per cent.

The extremely uneven distribution of incomes, the singling out of a narrow stratum which concentrates in its hands a substantial, if not the main part, of the purchasing power of the population drawn into the sphere of commodity-money relations leads to changes in the movement and composition of the effective demand, which hinder the growth of industrial production in developing countries.

Such a distribution of incomes slows down the expansion of the markets for manufactured consumer goods, the production of which, as a rule, is technically and financially more feasible in the early stages of industrialisation. On the other hand, the striving of persons with high incomes to obtain all the possible benefits of modern civilisation, stimulated by "prestigious considerations", leads to the swift diversification of the consumer demand for a wide range of goods

<sup>1</sup> See *Klassy i klassovaya borba v razvivayushchikhsya stranakh*, Vol. 1, pp. 112-15.

<sup>2</sup> *Nigeria. 1965. Crisis and Criticism (Selection from Nigerian Opinion)*, Ibadan University Press, 1966, p. 62.

<sup>3</sup> *UN. Report of the ECA Mission on Economic Co-operation in Central Africa*, p. 7.

<sup>4</sup> See *Pravda*, August 20, 1964.

and services. The existence of such a tendency can be judged by the income elasticities of demand<sup>1</sup> calculated for some newly free countries.

Income Elasticities of Demand for Consumer Goods  
in Selected Developing Countries  
(1955 to 1964)<sup>2</sup>

Country	Durables	Semi-durables	Non-durables			Services
			Total	Food, beverages, tobacco	Others	
Trinidad and Tobago	1.1	0.7	1.0	0.9	1.3	1.2
Jamaica	1.5	1.1	1.0	1.0	0.9	0.9
Panama	0.8	-0.3	1.2	1.4	0.2	1.3
Malaysia	1.5	0.8	1.0	0.9	1.5	1.0
Dominican Republic	1.5	1.2	0.8	0.7	1.2	1.3
Honduras	3.6	1.1	0.7	0.5	2.8	1.3
Ecuador	2.2	-0.1	0.8	0.2	4.9	2.3
Thailand	2.3	0.7	0.7	0.6	1.1	1.6

Income elasticity of demand for various consumer goods in 8 developing countries represented in the table differs considerably, and this is not surprising. Changes in demand as distributed by commodity groups cannot but reflect the specifics of economic development and social differentiation in individual countries and differences in the level of saturation of their national markets with certain types of consumer goods. At the same time these figures confirm the tendency, general for developing countries, towards accelerated growth of the market for durable goods and services. Such a tendency, in fact, is in evidence everywhere, notwithstanding the big differences in the average per capita income between countries. In seven of the eight states elasticity of demand

<sup>1</sup> In this case income elasticity of demand reflects the ratio between the rates of expenditure for the groups of goods presented in the table with the increase in the private consumption expenditure by 1 per cent.

<sup>2</sup> UNIDO. ID/Conf. I/46, p. 91.

for durables and services in 1955-64 was above 1. The demand for durables only in Panama and for services only in Jamaica lagged behind the general growth in the private consumer expenditure. This deviation of the two countries from the general "rule" is linked to a higher demand for food, which impeded the growth in consumption of other goods.

By itself the accelerated growth of the demand for durables and services is a natural phenomenon. But in conditions of a backward, one-sided economy this complicates the extremely involved problem of maintaining the necessary equilibrium between production and the market. Since rather limited demand is spread over a big assortment of goods, this lessens the possibilities of organising modern mass production, narrows the scale of some of the lines and delays the development of others. Correspondingly, the demand for imports rises. Thus, the creation of internal stimuli and the incentives they engender for the development of industry is impeded, structural imbalances in the economy are preserved and the chances for balancing foreign trade are growing worse. Moreover, because of the faster increase in the demand for luxuries additional restrictions are created to increasing the accumulation fund, while the considerable expansion of the range of consumer goods in demand is fraught with the danger of impeding the development of the local output of producer goods.

Consumption of durables in developing countries is almost the exclusive privilege of the wealthiest sections of the population. A survey of family budgets in Argentina, made in the first half of the 1960s, shows that the group of the population with low incomes practically does not consume such goods. In the case of middle-bracket families durables claim 6-9 per cent of their budget and in high-income families, more than 20 per cent.<sup>1</sup> In India (Delhi) where, incidentally, the elasticity of demand for this group of goods is near to 3, half of all the purchases at the beginning of the 1960s were made by 5 per cent of the population, with incomes from Rs. 10,000 to Rs. 25,000. The other durables were bought by persons with even higher incomes.<sup>2</sup> Even in such a relatively developed country as Mexico, in the opinion of R. Vernon,

<sup>1</sup> *The Process of Industrial Development in Latin America*, pp. 122-23.

<sup>2</sup> *The Third Five-Year Plan and India's Economic Growth*, p. 42.

an American economist, up to three-fourths of the population "may have to be regarded as simply outside the market for many modern-day products".<sup>1</sup>

That is why the possibilities for developing the manufacture of durables are quite limited in most developing countries. On the other hand, its growth in fact signifies a redistribution of national resources that is undesirable from the economic point of view and questionable—to say the least—from the social point of view. B. S. Tendon, an Indian economist, holds that an increase in the output of durables would divert resources from the manufacture of other consumer goods, which otherwise could be developed. Thus, it leads to a rise in prices of mass-consumed or non-durable goods, effecting changes in the system of distribution in favour of the upper strata at the expense of the main mass of the people.<sup>2</sup> At the same time in the absence or insufficient development of the manufacture of durables they are mainly imported. This limits the purchases in the world market of other goods more needed for the economy.

At the same time the accelerated increase in the expenditure for all kinds of services, while the most essential needs in foodstuffs are not satisfied, reduces the total capacity of the local market of manufactured goods to a notable extent. According to ECLA, from 18 to 37 per cent<sup>3</sup> of all private consumer expenditures in Latin American countries go for non-food goods. On the average this is less than in developed capitalist countries. In real life, naturally, there is no full coincidence between the economic development level (or per capita income) and the share of the private consumer expenditure used for buying manufactured goods. Thus, in Uruguay, Costa Rica and Panama where the per capita income is higher than in Brazil, the ratio between the total consumption of finished goods and per capita income is lower. But isolated deviations cannot change the general trend which attests to the direct dependence, at the initial phases of economic growth, between the share of individually consumed manufactured goods and the size of per capita income. Therefore, in less developed regions of Asia and

<sup>1</sup> Raymond Vernon, *The Dilemma of Mexico's Development. The Roles of the Private and Public Sectors*, Cambridge, 1968, p. 184.

<sup>2</sup> See *National Income of India. Growth and Distribution (1950-51 to 1960-61). Facts and Problems*, p. 42.

<sup>3</sup> *The Process of Industrial Development in Latin America*, pp. 121-22.

Africa the part played by the market of manufactured goods is even more insignificant than in Latin America.

In a word, the limited possibilities for the industrialisation of developing countries stemming from the insufficient level of their economic growth are perpetuated by the totality of socio-economic factors that accompany this level. The point is not only the insignificant scale and extremely uneven distribution of purchasing power in these countries, but also the unfavourable composition of the individual effective demand inherent in a low development level.

The general limitations of consumer demand for manufactured goods in conditions of the exceedingly low purchasing power of the main mass of the population drawn into the market economy speed up the saturation of the market with manufactured consumer goods. The slow growth of incomes hinders the expansion of the range of the goods consumed by the low-income population groups. The lion's share of their effective demand is for foodstuffs. Usually, little is changed by the entry of additional contingents of the economically active population into the commodity-money sector because this process, as a rule, takes place rather slowly and is based on increasing social inequality. In turn, the swift saturation of the market complicates the problem of utilising the existing productive capacities and thereby hinders new industrial construction. On the other hand, an increase in the incomes of the wealthier stratum of the population in developing countries promotes not only, at times even not so much, an expansion or even maintenance of the local demand for the previously consumed manufactured goods as its further diversification under the impact of the swift change of models and widening selection of consumer goods in industrially developed states.

Since consumption is the end link in the long chain of socio-economic relations "pertaining to production", the small scale and unfavourable composition of the consumer demand for manufactured goods ultimately tell adversely on the possibilities and the growth rates of the output of capital equipment. The low level of consumption of manufactured goods for personal use, with the tremendous techno-economic backwardness of agriculture and one-sided development of industry ensure conditions for the operation of only a rather limited range of enterprises which put out producer goods. In building such enterprises developing countries

are often unable to utilise the advantages of large-scale production owing to the small capacity of the home market.

Take, for example, the steel industry which serves chiefly producer goods industries. At the beginning of the 1960s out of six countries in Central Africa only in Zaire did steel consumption reach a level of 60,000 tons which could ensure the loading up of a steel plant of minimal capacity. Moreover, the possibility of building such a plant by itself does not yet imply that a project of this kind is economically expedient. Techno-economic calculations show that the production costs per ton of steel at a plant with a capacity of 50,000 tons (the construction of which would be justified by the scale of consumption in Zaire) would be 66 per cent higher than at a works with an annual capacity of 1,000,000 tons. Worthly of note in this context is also the fact that in 1959-61 the average annual consumption of steel in all countries of Central Africa<sup>1</sup> combined amounted only to 110,000 tons; even in projections for 1980 their needs are estimated only at 831,000 tons.<sup>2</sup> It has also been calculated that if in Latin America the demand for steel in 1966-75 were satisfied in the framework of a regionally integrated market creating the possibility for the operation of enterprises of optimal capacity, rather than on the basis of production in the framework of individual national markets, investment capital amounting to \$3,700 million could be saved and the direct annual production cost of steel could be reduced by more than \$400 million.<sup>3</sup>

Other modern industries also provide sufficiently conclusive evidence of the limitations imposed on the possibilities of industrial construction in developing countries by the narrow bounds of their national markets or the consequent low efficiency of such construction. In oil refining, for example, the optimal capacity of primary refineries is estimated at 4-5 million tons. Yet in most countries which have embarked on the path of independent development, the consumption of

<sup>1</sup> According to the classification of the Economic Commission for Africa, the Central African region includes Gabon, Cameroun, the People's Republic of Congo, Zaire, the Central African Republic and Chad.

<sup>2</sup> Report of the ECA Mission on Economic Co-operation in Central Africa, pp. 128-29.

<sup>3</sup> UNCTAD. *Trade Expansion and Economic Integration Among Developing Countries*, TD/B/85, 1966, p. 9.

oil fuels is much lower than this optimum.<sup>1</sup> Owing to the narrow framework of production determined by the small capacity of the national markets, capital investments in the pulp and paper industry of Latin American countries are almost twice as high as the sum which would be needed if enterprises were built on a regional basis for the entire Latin American continent, while direct production costs in this industry are almost 80 per cent higher,<sup>2</sup> and so on. Such in principle are the bounds of the home market potential, which serves as a basis for the industrialisation of developing countries.

### 3. INFLUENCE OF THE MARKET ON THE DEVELOPMENT OF THE MANUFACTURING INDUSTRY

The building up of a manufacturing industry in developing countries is linked with the need to surmount the barriers raised in the way of their economic growth by the warped and one-sided pattern of the national economy, aggravated by the techno-economic backwardness of export industries and/or tendencies of international trade unfavourable for them. Thus, industrialisation has to maintain and extend the inadequate or diminishing stimulants of growth imparted to the economy of Asian, African and Latin American countries by the exportation of their traditional raw materials. A special approach is therefore needed to valuating the economic efficiency of young industry in developing countries. Economists must not confine themselves to a mere comparison of the production costs of local industrial output with the expenditure for the corresponding imports, as is done by some bourgeois political economists who base themselves on a vulgar interpretation of the theory of comparative production costs. What is important for the national economy as a whole, especially at initial stages of development, is not only and not so much the difference between production costs and the expenditure for the importation of the same or similar goods, but above all the influence

<sup>1</sup> ECLA. *Possibilities of Integrated Industrial Development in Central America*, New York, 1964, p. 45; *World Petroleum Report. An Annual Review of International Oil Operations*, Vol. XIV, New York, 1968, pp. 22-23.

<sup>2</sup> UNCTAD. TD/B/85, p. 9.

of each of these alternatives on the country's national income.

If an industry ensures at a given time (and even more so in the long term) a bigger increment of the national income than one that could be earned by similar investments in other sectors of the national economy, its development may be fully justified economically even though the prices of corresponding imported goods may be lower. Contesting the view of the advocates of preserving the agrarian raw material trend of the economy in the developing countries Raúl Prebisch, well-known Argentinian economist who headed UNCTAD when it was founded, emphasised: "It is not really a question of comparing industrial costs with import prices but of comparing the increment of income obtained in the expansion of industry with that which could have been obtained in export activities had the same production resources been employed there."<sup>1</sup> Industrialisation of developing countries, acting as an instrument (method, means) for transforming backward socio-economic patterns, is also the natural and, in fact, the only alternative to the former way of development which was based exclusively or predominantly on the exports of mineral and agricultural raw materials.

The shortage of consumer goods in the home market is an immediate motive for building manufacturing enterprises in developing countries. At first a scarcity of goods arose only sporadically in years of poor crops and in periods of cyclical recessions in the world capitalist economy which upset international trade. Subsequently this scarcity began to acquire a permanent character under the influence of internal, immanent forces of the process of economic growth itself in conditions of a one-sided economic pattern and unfavourable tendencies in the world market.

With the appearance of their own industrial enterprises Asian, African and Latin American countries, in effect, entered a struggle for the possession of their own home market which had been created by the entire preceding development of commodity-capitalist production. Alongside the growth of industry which ensures the direct replacement (or ousting) of imported goods, the building of enterprises is

<sup>1</sup> Raúl Prebisch, "Commercial Policy in the Underdeveloped Countries"—*The American Economic Review* No. 2, 1959, p. 255.

gradually launched during the struggle against the foreign monopolies, enterprises designed to utilise the additional home market potential created by current economic growth and, at a later stage, to sell their products abroad. It is clear that the incipient industry itself is incapable of ousting from the market the powerful competitors which had entrenched themselves there. Therefore, an active, if not a decisive part in this respect must necessarily be played by the state. In addition to various forms of customs protectionism (from high duties through direct prohibition of certain imports) the state stimulates the development of local industry with all kinds of direct subsidies and also by rendering it technical assistance within its power.

Motivations coming from the internal market, reinforced by the government's protectionist, taxation and credit policy, on the one hand, and the keenest competition in the world market, on the other, in a word, the sum total of internal and external conditions for growth resulted in that the emerging industry received as its main guidepost the markets of the developing countries themselves.

In 1960-64, according to an UNIDO estimate, local production accounted on the average for already more than 78 per cent of all the manufactured goods sold in the home market of developing countries.<sup>1</sup> Of course, the proportion of local manufactured goods at Asian, African and Latin American markets and also of individual developing states is by far not the same. It is the biggest in the markets of Latin American countries (in 1960 almost 86 per cent) and the smallest in African states (1963, 55 per cent); however, while in the markets of Argentina and Brazil the share of imported goods did not exceed 9 per cent, in Nicaragua, El Salvador, Costa Rica and Panama it reached 37-40 per cent,<sup>2</sup> i.e., was slightly below the average figure for the African continent. Since Latin American countries advanced more than others in the development of the production of import substitutes, we shall give them a little more attention.

Discussing the degree of self-sufficiency attained by individual developing countries and regions, we must not

<sup>1</sup> UNIDO, ID/Conf. I/46, p. 118.

<sup>2</sup> *The Process of Industrial Development in Latin America*, pp. 117-18; UN, *A Survey of Economic Conditions in Africa 1960-1964*, p. 95.

forget that the relationship between locally produced and imported manufactured goods is ultimately shaped under the influence of numerous factors. The need for imports is determined not only by the achieved level but also largely by the pattern of industrial production. On the other hand, satisfaction of these needs depends on the available foreign exchange and the general composition of imports, because the amount of imported manufactured goods required by the national economy depends on the scale of the imports of non-manufactured goods. That is why the ratio between imports and local products undergoes a constant evolution and is subject to diverse changes. But if we proceed from the real effective demand (and we have no other objective economic criteria) the degree of self-sufficiency in manufactured goods which follows from this relationship can characterise the real state of affairs in this sphere at each given period.

Priority orientation of industrial production on the home market has both indisputable merits and serious shortcomings. In conditions where there are possibilities for ousting goods of foreign origin from national markets such an orientation quite often ensures a certain rise in the rates of industrial production because its development may emerge beyond the bounds permitted by the changes of the home (and external) effective demand. This, by the way, explains why the achievements in industrialisation registered by a number of industrially backward countries are relatively independent of the development of other sectors of their economy. The increase in the general economic potential achieved in this way promotes the accelerated growth of the home market. Thus, in Chile import substitution ensured about half of the increase in industrial production between 1929 and 1960; in Argentina and Colombia not less than 30 per cent; and in Brazil and Mexico, about 20 per cent.<sup>1</sup> In Pakistan about 20 per cent of the increase in gross industrial production between 1954/55 and 1963/64 was obtained through ousting imported goods and in India, 22 per cent between 1950/51 and 1965/66.<sup>2</sup>

<sup>1</sup> *The Process of Industrial Development in Latin America*, p. 50.

<sup>2</sup> Jaleel Ahmad, *Import Substitution and Structural Change in Indian Manufacturing Industry 1950-1966. Project for Quantitative Research in Economic Development*, Cambridge, Memorandum No. 17, August 1966, pp. 9, 19-20.

Production for the home market facilitates a rise in the general self-sufficiency of developing countries as regards manufactured goods. In the period between 1955 and 1959 and 1960 and 1964, with an average increase of national consumption of manufactured goods by 5.9 per cent annually, industrial output in developing countries rose by 6.6 per cent and the imports of manufactured goods from other areas by 3.6 per cent. According to the UNIDO calculations, on the whole during these ten years (1955-64) about seven-eighths of the additional deliveries of manufactured goods for the home market (and exports) were covered by increased local production. This enabled them to reduce the share of imported manufactured goods in their markets from 24.5 to 21.9 per cent, i.e., by more than one-tenth between 1960 and 1964, as compared with the second half of the 1950s.<sup>1</sup> Greater supply of local manufactured goods, in turn, helps to save foreign exchange. The same UNIDO calculations show that had the share of imports in covering the internal effective demand of developing countries for manufactured goods in 1960-64 been preserved at the level of 1955-59, some \$3,000 million annually would have been required to pay for them.<sup>2</sup>

Acceleration of industrial growth rates and an expansion, on this basis, of the total capacity of the home market, and also the saving of foreign exchange on imports, give some idea about the achievements of developing countries which have undertaken to regain their national market for manufactured goods. But the economic efficiency of the industrialisation process is determined not only and not so much by the magnitude of the increased industrial and total market potential or the saving of foreign exchange on imports (just as it is not reduced to a comparison of local production costs with the expenditure for the purchase of corresponding goods abroad) as by the structure of the emerging industry and the nature of the changes it causes in the entire national economy of industrialising countries.

Whatever the effect of winning the national market of manufactured goods, industrialisation of developing countries does not, and practically cannot, pursue the aim of full self-sufficiency in manufactures. Refusal to participate in

<sup>1</sup> UNIDO, ID/Conf. I/46, pp. 117-18.

<sup>2</sup> Ibid., p. 117.

international economic exchange would not only deprive a country of serious additional stimuli to economic growth, but would also practically cut off its development from all the achievements of world scientific and technological progress. In other words, industrialisation and the gradual replacement of imported goods by articles of local manufacture are by no means tantamount to a reduction of imports or in any case their absolute decrease.

On the contrary, the expansion of industrial output increases the total effective demand in the home market of developing countries. This places on the agenda the question of further expanding internal production and/or increasing imports for satisfying it. However, industrial construction, especially at the initial stages, is impossible without imported equipment and essential components, some types of raw materials and semi-manufactures, just as it is impossible without the importation of part of the consumer goods. But to pay for all of these goods it is necessary to develop export sectors. Thus, the building up of industry, including the production of import substitutes, exerts an intricate cumulative effect on the entire national economic mechanism of industrially less developed countries.

The nature of this impact demonstrates the need for the utmost development of their foreign trade. From this it is clear that the industrialisation of developing countries largely hinges on the possibilities of deepening their specialisation and co-operation in the framework of the international division of labour. Such specialisation with the modern tendencies in international trade evidently cannot be based only on traditional exports. It has to be supplemented by specialisation in the industrial sphere.

But the access of manufactured goods of developing countries to foreign markets is so far very restricted for a number of objective and subjective reasons.<sup>1</sup> At the beginning of the 1960s, for example, only 7 per cent of the gross industrial output of Latin American countries was sold through foreign trade channels.<sup>2</sup> Moreover, a considerable increase of industrial exports in the 1950s and the 1960s did not raise their share in the total sales of local industrial manufactured goods of many developing countries or all of them

combined. Thus, in 1950-51 exports absorbed 20 per cent of India's industrial output and in 1965-66, only 7 per cent.<sup>1</sup> According to UNIDO estimates, the share of exports in the sale of industrial output of all developing countries (without their reciprocal trade in these goods) in 1960-64 amounted to 11.3 per cent as against 11.7 per cent in the second half of the 1950s.<sup>2</sup>

Inadequate development of industrial exports and the consequent shortage of foreign exchange resources under the socio-economic mechanism operating in developing countries usually stimulate, first of all, an expansion in the output of import substitutes in short supply. Here is the origin and the unwitting consolidation of autarchic tendencies in the economy of Asian, African and Latin American countries, which impel them to raise in every way their supply of locally produced manufactured goods. The shortage of foreign exchange resources was the prime cause of this phenomenon in the first half of the 1960s. "Perhaps in only a few developing countries," it is emphasised in a survey of industrial development prepared by UNIDO, "did the shift towards import substitution primarily reflect dynamism in the domestic manufacturing sector, rather than limiting operations in the import sector."<sup>3</sup> A shortage of internal dynamic forces in the manufacturing industry of most developing countries, to which UNIDO experts refer in revealing the motivations underlying accelerated import substitution, is linked primarily to the low level of industrial development. But this by far does not exhaust the substance of the matter. The shortage of such forces is also largely determined by the imperfections of the emerging industrial structures.

With the limited participation of the state in industrial construction, an insufficiently flexible system of stimulation and the absence of effective control over the channelling of private investments in industry, its development chiefly follows current changes in the composition of the final demand, the consumer demand in the first place. In these conditions, behind the customs barrier, favourable ground is created for the rise of an unjustifiably high number of small enterprises and the preservation of obsolete production methods. Moreover, a considerable part of the investments are

<sup>1</sup> These questions are examined in the next chapter.

<sup>2</sup> *The Process of Industrial Development in Latin America*, p. 88.

<sup>1</sup> Jaleel Ahmad, *op. cit.*, pp. 30, 34.

<sup>2</sup> UNIDO, ID/Conf. I/46, p. 161.

<sup>3</sup> *Ibid.*, p. 123.

made in industries and enterprises, whose development, from the national economic viewpoint, is often premature.

In Latin America, as ECLA experts emphasise, "tariff duties designed to restrict consumption of specific imported luxury goods have in practice created powerful incentives to their domestic manufacture in conditions of dubious economic efficiency, with the result that neither are the social objectives implicit in the restriction of this type of consumption achieved, nor is the incidence of such imports on the balance of payments substantially lightened".<sup>1</sup> Such phenomena have seriously affected the entire course of industrialisation in Latin American countries.<sup>2</sup> Now similar processes are under way in Asia and Africa.

Consumption and Production<sup>3</sup> of Manufactured Goods in Latin America<sup>4</sup>  
(distributed according to designation; in 1960; million dollars)

Group of countries <sup>5</sup>	Total industrial output	Goods of intermediate demand		Goods of final demand				
		total consumption	of which domestic production	total consumption	of which domestic production	total consumption	of which domestic production	total consumption
I	37,644	34,043	14,118	12,903	18,723	18,272	4,803	2,868
II	8,755	7,298	2,661	2,228	5,101	4,864	998	206
III	2,238	1,502	597	375	1,237	1,106	404	21
IV	2,989	1,641	731	468	1,608	1,140	650	33
Total for 16 countries	51,626	44,484	18,107	15,974	26,669	25,382	6,855	3,128

<sup>1</sup> *The Process of Industrial Development in Latin America*, p. 31.

<sup>2</sup> See *Mirovaya ekonomika i mezhdunarodniye otnosheniya* No. 4, 1967, p. 111.

<sup>3</sup> Exclusive of production for export.

<sup>4</sup> *The Process of Industrial Development in Latin America*, pp. 117-19.

<sup>5</sup> Group I includes Argentina, Brazil and Mexico; Group II, Colombia, Peru, Uruguay and Chile; Group III, Guatemala, Honduras, Dominican Republic, Costa Rica, Nicaragua, Panama, El Salvador and Ecuador; and Group IV, Venezuela.

<sup>6</sup> This column includes only machinery and equipment and similar goods, while the bulk of the building materials are classified as goods of the intermediate demand.

As a result of the decisive impact of market motivation diversification of industrial production in many developing countries has been chiefly in breadth, i.e., in individual types of the final product of consumer designation. This process has gone especially far in Latin American countries. A high degree of provision of Latin American countries with local manufactured goods has been attained largely on account of consumer goods.

The data in table on p. 158 show a very high degree of sufficiency of local manufactured consumer goods for the achieved development level and the total capacity of national markets. In the biggest and most developed countries of Group I imports of manufactured goods for personal consumption were substituted to the extent of 98 per cent. Colombia has also drawn near to this level (97 per cent). The excessive diversification of industry in breadth stands out most distinctly perhaps in Uruguay, one of the most developed countries of the continent. It has a population of only 2.5 million, and local production covers 97 per cent of the total consumption of manufactured consumer goods which clearly shows how small and fragmented the respective industries are. Even in countries of Group III with the most restricted markets local production covered almost nine-tenths of the effective consumer demand.

Only Venezuela, having comparatively big and stable foreign exchange receipts, could afford not to step up the development of the manufacturing industry. Holding the sixth place in Latin America for gross production, fifth place for total and second place for per capita consumption of manufactured goods, Venezuela still imported more than 45 per cent of all the manufactured goods, and about 30 per cent of the consumer goods at the beginning of the 1960s. The situation in Venezuela, for all its shortcomings (certain lag in the development of the producer goods industry), graphically brings out the fact that most developing countries come up against limited foreign exchange resources in the course of industrialisation, and once again emphasises the pressing need for the utmost expansion of their export industry.

Alongside a high degree of self-sufficiency in consumer goods, worthy of note are the differences in production and consumption of industrial goods for productive purposes (represented by goods of the intermediate and investment

demand) between groups of Latin American countries. This above all applies to investment goods. While the share of machinery and equipment in industrial output on the whole corresponds to the level of industrial development of each group of states, their share in the consumption of the given group of goods, in fact, was in inverse proportion to this level at the beginning of the 1960s. In industrial markets of countries in the first and second groups investment goods amounted to 13 and 11 per cent, and in 8 states of the third group and in Venezuela 18 and 22 per cent respectively. The relatively big share of the market for investment goods in the latter two groups should be attributed to the higher demand by the export sector of the economy which also provides the necessary funds to pay for these goods. The comparatively limited market for machinery and equipment in the other Latin American states, reflecting the weakness of the export sector, at the same time demonstrates the difficulties of organising their manufacture locally caused by the very structure of local industry.

The consumer goods industry, whose emergence initiates the industrialisation process in developing countries, does not introduce any fundamental changes in the pattern of their national economy by itself. But the development of these industries is exceedingly important from the national economic viewpoint because it provides an economic basis for future changes by creating an effective demand for certain types of producer goods. The manufacture of a wide range of consumer goods with a limited consumption of individual kinds leads to an excessive diversification of the demand for equipment which reduces to naught the effect of its expansion in absolute volume. Thus, the possibilities of satisfying the needs of the growing market for equipment in developing countries by organising its manufacture on the spot are curtailed appreciably. In other words, the "predilection" in a less developed economy for organising numerous lines of production, in response to the changes in the composition of the internal consumer demand, carries over the flaws of this composition to the local market for equipment.

The inordinately wide range of manufactured goods in the national markets, stimulated almost exclusively by current changes in the composition of the internal consumer demand, also leads to other outlays. Such a type of industrialisation hampers specialisation and a more rational

use of all available resources. Swift diversification of the industries producing consumer goods, as emphasised by ECLA experts, proceeds "at the expense of the consolidation and fruitful growth of lines already established".<sup>1</sup> Thereby the general economic potentialities of industrial development and exports are reduced. The building of a large number of small enterprises with a wide range of products prevents a rise of their productivity. At the same time the state-stimulated influx of investments into local industry, in the absence of adequate measures for controlling it, quite frequently results in the creation of surplus productive capacities.

On the other hand, as pointed out by ECLA experts, the "widespread development in breadth", most typical of Latin American industry, "tends to increase and perpetuate situations of monopoly or restricted competition, and the stagnation of traditional industries. This is apparently one reason why such industries in Latin America are now faced with an urgent need to renew the obsolete equipment they have accumulated, and why their levels of organisational and operational efficiency are so low".<sup>2</sup> All this is true. Yet it is beyond doubt that given centralised guidance of the industrialisation process by the state which relies in its activity on a scientifically based and flexible economic policy, it would be possible to create here more improved industrial patterns and thereby raise the general national economic effect of this process.

India, the Arab Republic of Egypt and some other developing countries have achieved a somewhat more effective regulation by the state of capital investments in industry, taking into account not only the current but also long-range needs of the economy. The years of independence have not been marked here by such a strikingly pronounced diversification of industry in breadth as in Latin America, although the spontaneity of the market was pushing them mainly onto that path. Drawing on the potentialities of the available market, the governments in these countries actively promoted expansion of the output of capital goods. During the first three five-year plans (1950/51-1965/66) India ensured almost two-thirds of the increase in the production of import substitutes and more than one-third of the increment in gross

<sup>1</sup> *The Process of Industrial Development in Latin America*, p. 31.

<sup>2</sup> *Ibid.*

industrial output on account of investment goods (including structural and building materials). The output of goods for productive purposes together with goods of intermediate demand accounted for slightly less than 70 per cent of the total growth in India's industrial output during these years.<sup>1</sup>

Purposeful resistance to spontaneous market forces enabled these countries to depart from colonial standards of industrial production and undertake the building up of entire industrial complexes. It is characteristic that the share of investment goods in the industrial output of India and Pakistan in the 1950s and early 1960s grew faster (by 7.1 and 8.1 per cent annually) than in Latin American countries like Argentina (6.1 per cent), Brazil (2.1 per cent) and Mexico (2.4 per cent)<sup>2</sup> notwithstanding the fact that they seemed to be less prepared for this judging by the development of the consumer fund of manufactured goods.

It goes without saying that the accelerated expansion of the output of means of production, ensuring fuller use of the potentialities of economic growth, is no guarantee against economic imbalances. India, too, has not succeeded in avoiding them. Specifically her need for imported raw and other materials and semi-manufactures for local industry has risen inordinately. As a result, under the Third Five-Year Plan the sum of foreign exchange allotted for the importation of goods to maintain industrial production was twice as large as for new capital equipment.<sup>3</sup>

This is explained not only by structural flaws of industry itself. The imbalances are above all a consequence of the evident discrepancy between the economic measures for developing industry and the unsolved agrarian-peasant question. This discrepancy resulted in the lag of agriculture behind the growing needs in its produce. The food situation deteriorated. The export potentialities of the country diminished. The mounting food imports restricted the possibilities for getting industrial raw materials from abroad and this, alongside the general marketing difficulties, led to under-employment of productive capacities.

The example of India and many other countries demonstrates that industrial progress is linked to the development

<sup>1</sup> Jaleel Ahmad, *op. cit.*, pp. 19, 30.

<sup>2</sup> UN. *World Economic Survey 1967*, Part I, p. 62.

<sup>3</sup> *The Third Five-Year Plan*, Delhi, 1961, p. 112.

of other sectors of the economy, agriculture first and foremost. That is why guidance of industrialisation by the state cannot be confined to regulating sectoral proportions only in industry itself. Comprehensive solutions to national economic problems are needed for a confident advance in this sphere.

The development of industry in most Asian and African countries, except India, Pakistan and the Arab Republic of Egypt, has proceeded chiefly by expanding industries which produce consumer goods that replace or curtail imports. In most Asian and African countries, where industrialisation began later, the development of such production has not yet reached the level of Latin American states. As a rule, the potentialities of their home markets are smaller than in Latin America. That is why the economically justified limits of diversification of industry in breadth in Asian and African countries are narrower in most cases than in the Latin American continent.

In Africa locally manufactured consumer goods covered an average of 27 per cent of demand in 1963 as compared with 31 per cent in 1950,<sup>1</sup> i.e., exceeded the level of Venezuela which is an exception among Latin American countries in this respect. A higher provision of locally manufactured consumer goods has been attained in Southeast Asian countries. At the beginning of the 1960s in Sri Lanka imports covered about 23 per cent of the private consumer expenditure, in Burma 11 per cent, Thailand 10 per cent and the Philippines 3.2 per cent. To appreciate the importance of these figures compare them with data for Latin America. At the end of the 1950s the share of imports in covering the entire private consumer demand in Latin American countries amounted to 3.1 per cent on the average, or almost as much as in the Philippines. The average indicator for Mexico, Brazil, Venezuela (2.4 per cent) was only one-fourth and for Argentina, Bolivia, Chile, Paraguay and Uruguay (2.7 per cent) approximately one-sixth higher than in the Philippines. In small Central American countries and also in Panama, the Dominican Republic and Haiti imported goods accounted on the average for 11 per cent of the private consumer expenditure, which approximately corresponds to the level of

<sup>1</sup> UN. *A Survey of Economic Conditions in Africa 1960-1964*, p. 35.

bigger but less developed countries like Burma and Thailand.<sup>1</sup>

However, although there is some progress, the processing of export raw materials in Asian, African and Latin American countries on the whole is still developing quite slowly. Further progress in this field, alongside the shortage of capital and technical know-how, is impeded both by the relatively high cost of transportation to the markets of some finished goods and semi-manufactures produced from such raw materials, and also the obstinate resistance offered by imperialism to the shifting of the respective lines of production to developing countries.<sup>2</sup>

Concentration of effort of most Asian, African and Latin American countries on increasing the local production of consumer goods hinders industrial specialisation in the framework of the international division of labour and thereby reproduces the situation which impels developing countries to build up new additional lines for the production of consumer goods. At the same time expansion of the assortment of the produced goods hinders specialisation and co-operation of industrial production in the national economic complexes of individual developing countries, regions and the world economy as a whole. This is linked both with the difficulties of building up industries for the manufacture of producer goods, and directly with the small scale of producing the consumer goods themselves.

The weak interconnection and complementariness of different branches of the manufacturing industry in developing countries is demonstrated by the small scale of the so-called intermediate production, as revealed by the volume of reciprocal deliveries of various semi-manufactures, materials and components within a given industrial complex. While in Japan (1960) the output of semi-manufactures, materials and components consumed in related sectors and lines exceeded in value the final output (for production and consumption purposes) of the manufacturing industry at a ratio of 1.8:1, in developing countries the ratio is reversed. In Mexico (1965) the ratio of intermediate production to the final output was

<sup>1</sup> *Economic Survey of Asia and the Far East, 1963*, Bangkok, 1964, p. 31; UN, *The Economic Development of Latin America in the Post-War Period*, New York, 1964, pp. 6, 22.

<sup>2</sup> This question is examined in greater detail in the next chapter.

1:1.6; in Brazil (1965) 1:1.9; India (1965/66) and Colombia (1962), 1:2.1; Argentina (1961), 1:3.0; Malaysia (1960), 1:3.3; Pakistan (1963/64), 1:3.5; Tanzania (1961) 1:11.5.<sup>1</sup>

The low level of specialisation and co-operation in the manufacturing industry of developing countries deprives them of serious additional factors for expanding the capacity of the home market inherent in the development of inter- and intra-sectoral demand, simultaneously reducing the general economic efficiency of industrial production. As a result, the effect of industrialisation is localised to a greater or lesser degree and its stimulating influence on the national economy as a whole is weakened. Specifically, this reduces the so-called multiplier effect which leads to the creation of material prerequisites for organising more or less integral industrial complexes and thereby giving the entire national economy the necessary impetus for independent development on a national basis. The creation of such prerequisites is also hampered by the limited processing of traditional export goods and the weak links of the manufacturing industry with other sectors of the local economy. It was noted in the ECLA study quoted earlier that industrialisation through import substitution (and the consequent diversification of industry in breadth), helping to eliminate restrictions to general development created by unfavourable conditions for the exports of traditional raw materials, proved "less effective in replacing the external sector as the stimulant to a self-sustaining growth".<sup>2</sup> This conclusion applies to a no smaller, if not greater, extent to many Asian and African countries.

At the same time the slow development of the production of intermediate goods runs counter to the swift rise in the demand for them dictated by the relatively high growth rates of the output of finished goods. The result is an increasing need to import the lacking materials and semi-manufactures. These needs rise especially fast when finished goods of foreign origin have to be forced out from the local market. The substitution of imports by locally produced finished goods is accompanied by a modification of the composition

<sup>1</sup> *Economic Survey of Asia and the Far East, 1964*, Bangkok, 1965, pp. 33-37; *Background to the Budget. An Economic Survey 1966-1967*, Dar es Salaam, 1966, Table 7a; UN, *World Economic Survey 1967*, Part I, p. 62.

<sup>2</sup> *The Process of Industrial Development in Latin America*, pp. 53-54.

of imports: raw materials and semi-manufactures which formerly were a component part of the imported finished goods are now bought in the world market directly. In other words, the unregistered imports of primary and intermediate products are singled out and assume the form of open imports. The scale and development of this process can be illustrated in the case of Southeast Asia.

As industry developed the imports of consumer goods began noticeably to recede in growth rates as compared with the imports of primary materials needed for their manufacture. As a result, while in 1953-54 the imports of manufactured consumer goods were somewhat greater in volume (by 4 per cent) than the imports of corresponding types of raw materials and semi-manufactures, in 1965-66 they were already 44.5 per cent smaller. The difference was particularly significant in the rates of these two commodity groups in the 1950s when the industrialisation process was only gaining momentum: 7.5 per cent for primary material as against 1.4 per cent for finished goods. In the 1960s the gap between them decreased somewhat but the average increase of imports of primary materials rose to 11 per cent. These changes in the composition of imports in individual Southeast Asian countries were as follows.

Ratio of Imported Materials for Consumer Goods to the Imports of Finished Consumer Goods<sup>1</sup> (per cent)

Country	1953-54	1961-62	1965-66
Thailand	25	45	62
Malaysia (exclusive of Sabah and Sarawak)	64	100	112
Sri Lanka	41	65	118
Burma	43	60	128
Indonesia	63	95 <sup>2</sup>	—
Philippines	56	253	308 <sup>3</sup>
Pakistan	119	193	336
India	179	426	470

<sup>1</sup> Economic Survey of Asia and the Far East, 1963, p. 33; 1968, pp. 220-21.

<sup>2</sup> 1961.

<sup>3</sup> 1964-65.

In general the rate of substitution of imported consumer goods by the imports of primary materials for their local manufacture exceeded in the mid-1960s the level of the first half of the 1950s by 75 per cent in Malaysia, 150-200 per cent in Thailand, India, Pakistan, Sri Lanka and Burma; and by 450 per cent in the Philippines.

Thus, with diversification in breadth, the young industry of developing countries, among other things, becomes increasingly dependent on the foreign market. With such a pattern its normal operation is largely regulated by the possibilities of importing the necessary primary materials. Moreover, the significance of imports for ensuring the national economic balance of Asian, African and Latin American countries, as a rule, rises without an adequate expansion and consolidation of the export basis needed for this purpose. The restricted import possibilities create additional barriers to the development of an import-substitution consumer goods industry.

The one-sided pattern of production facilitated the appearance of symptoms of a crisis in the manufacturing industry of Latin American countries at the beginning of the 1960s. "The situation is aggravated," the ECLA survey stresses, "by the close association between these symptoms and the fact that the traditional stimulus afforded by import substitution has lost strength, while other factors destined to give new dynamic impetus have not yet acquired sufficient driving force."<sup>1</sup> It is indicative that, in the opinion of experts of this regional organisation, the substantial weakening of the stimulus to the further development of the industry producing consumer goods for the home market affected, although for different reasons, most, perhaps all, Latin American countries irrespective of their size and level of development.

Any further substitution of imports, ECLA experts hold, can proceed chiefly by organising technically sophisticated and capital-intensive lines of production. This requires either the creation of entire industrial complexes or still greater expansion of the imports of intermediate goods. The former is limited, among other things, by the capacity of the home markets, and the latter, by the weakness of the export sector.

<sup>1</sup> UN. Economic Survey of Latin America, 1965, New York, 1967, p. 21.

In many Asian and African countries, where the symptoms of crisis in import-substitution industries in the 1960s were still not as distinct as in Latin America, there is a great strain in the foreign economic balance, which restricts the possibilities of utilising import substitution in the described extensive type of industrialisation. The small capacity of the home market acts here as an equally essential limitation to the production of consumer goods to say the least. In Asian countries it is above all a result of a low per capita income and the extreme backwardness of agricultural production which is the main source of livelihood of the overwhelming majority of the population. In Africa it is aggravated by the small size of the population of most states.

To gain new, sufficiently powerful stimuli for accelerating industrial progress, developing countries need, besides capital and technical know-how, additional markets for their industrial output. The expansion of markets is required for enlarging the scale of production which is one of the major prerequisites for raising the efficiency of industrial investments and, consequently, for providing stimuli for the swifter growth of their volume. The diversification of local industrial output is also linked to the market potential.

Accomplishment of this major national economic task demands a series of economic, social, political, administrative and organisational measures. Of great importance for raising the home market potential are land reforms and the reinforcement of technical and economic facilities of agriculture. They are the point of departure and indispensable condition for the accelerated growth of agriculture which is the key to the efficient employment of the huge human resources, advance in the living standard of the mass of the rural population, improvement of the goods balance and the general expansion of the home market in young states. It goes without saying that the rates and methods of such changes ultimately hinge on the alignment and relationships of the main socio-political forces and the socio-economic conditions of each country.

A change in the composition of the effective demand is also one of the requisites for the accelerated growth of the home market. In addition to an improvement of the welfare of the broad sections of the working people, a certain levelling off of the individual incomes on the basis of tax reforms

is called upon to play a considerable part in eliminating tendencies of the consumer demand which are unfavourable for industrialisation. The expediency of such measures and the need for land reforms are increasingly recognised in economic circles of the developing countries.

ECLA experts have made calculations to demonstrate that there is every reason for bringing up this question. It follows from these calculations that if the economic potential of Latin American countries were doubled (as compared with the level at the beginning of the 1960s) and the share of population in the lowest brackets rose in the private consumer expenditure from 19 to 30.5 per cent (which might be achieved by increasing the average budget of persons in this group from \$126 to \$270 annually), the total demand for manufactured consumer goods would increase by 2.5 per cent more than it would with the same growth of the economic potential in conditions of an unchanged distribution of incomes. In such a case consumption of the output of the food industry would rise by an additional 6.7 per cent and of non-durable goods by 12.1 per cent. The demand for durables would somewhat decrease (as compared with what it would be under the existing distribution of incomes) but such a reduction would to a considerable extent be compensated by a certain unification of the nomenclature of the produced goods.<sup>1</sup>

The limited consumer demand spread thinly over a wide range of individual manufactured goods raises the question of the need for integrating the young industry into more or less harmonious national economic complexes, co-ordinating its development with the longer-range strategic tasks of economic growth. In this context primary significance attaches to the economic policy of the state. Small and less developed countries face the acute task of normalising investments in light industry, co-ordinating more closely its growth with the development of other sectors of the economy, enlarging the scale and improving the organisation of production by reducing to a certain extent the general volume of industrial construction and creating, on this basis, the necessary material prerequisites for deeper specialisation and the organisation of economic complexes. Developing countries with a large

<sup>1</sup> *The Process of Industrial Development in Latin America*, pp. 242-45

home market, moreover, are in need of swifter development of the producer goods industry.

All the lacking equipment for the production of consumer goods, just as of modern agricultural machinery, of course, can be bought in the world market even when the developing countries have the necessary effective demand for their manufacture on the spot. But, first, the continued growth in the imports of these goods sooner or later must be matched by an adequate expansion of exports. Second, and this is no less important, with the local output of producer goods lagging behind the real potentialities of growth created by the expansion of the home market or if such potentialities are reduced by the excessive diversification of industry in breadth, potentialities of economic growth, linked with the higher demand for this group of goods and the secondary effect of their production, continue to be utilised outside of developing countries. Clearly, this does not help the latter to end their economic backwardness in a short time.

The adverse influence of this situation on the economic growth rates of Asian, African and Latin American countries is increased by the fact that they do not receive any compensation in the form of wider access to the markets of developed capitalist states. One of the determinants of the unequal position of the developing countries in the system of the international capitalist division of labour is that the leading, most dynamic industries engaged in the manufacture of the instruments and means of production, in other words, of goods enjoying a higher demand in the market, are concentrated almost exclusively in the centres of world capitalism. Determining the nature of the existing interconnection with, and interdependence of developing countries on capitalist states, this position sheds additional light on the primary causes of the widening abyss between the levels of their development.

However, restructuring the pattern of the national economy of developing countries and creating, during this process, a more capacious and as balanced home market as possible is a task that calls for the utmost expansion of international economic exchange. This is necessary both for weakening import restrictions and for the wider use by these countries of the world economic potential. "The developing countries which have made the greatest advance in industrialisation," it is emphasised in a report of UNCTAD, "are

nearly exclusively those possessing large internal markets or enjoying free access to large markets in the developed world."<sup>1</sup>

Thus, apart from measures for extending and normalising the home markets, Asian, African and Latin American countries have to utilise more effectively, in their own interests, the potentialities of the international division of labour. Without the accelerated development of international economic exchange it is extremely difficult, if not impossible, for developing countries to overcome the limitations of the economic growth arising from their general techno-economic backwardness and exceedingly small, according to modern standards, size of the home market potential.

The question of wide access to foreign markets for the industrial output of developing countries is acquiring great significance on its own merits. The wide export of manufactured goods, among other things, is an indispensable condition for raising the economic return on investments in local industry. Without it most countries of Asia, Africa and Latin America cannot assimilate the achievements of the contemporary scientific and technological revolution because one of its demands is to optimise the scale of output for which bigger markets are required. It is rightly pointed out in one of the UNCTAD documents that barriers to the exports of manufactured goods "confine industrial initiative in the developing countries to their national markets. A vicious circle is thus created where the smallness of domestic markets leads to high costs, and high costs prevent entry into the foreign markets".<sup>2</sup>

A partial solution to the question can be found in the economic co-operation of industrially backward countries on a regional and sub-regional basis, with the prospect of the more or less substantial integration of their industry and other sectors of the economy. Since such integration promotes the most rational use of the available economic resources and a certain stabilisation of the external economic balance of the co-operating countries, it can essentially consolidate their positions in the world market. However, co-operation be-

<sup>1</sup> UNCTAD, TD/B/85, p. 12.

<sup>2</sup> UN, *General Study of Exports of Manufactures and Semi-Manufactures from Developing Countries and Their Role in Development*, E/Conf. 46/11, February 18, 1964, p. 5.

tween developing countries alone is unable to ensure all the necessary external conditions for the accelerated growth of their industrial output. Consequently, it is above all a matter of extending the international economic exchange between developing countries, on the one hand, and industrially developed states, on the other. From this it is clear that the success of industrialisation in countries which have embarked on the road of independent development depends to a great extent on the reconstruction of the entire system of unequal international economic ties and relations engendered by the epoch of colonialism.

#### 4. CONTRADICTIONS OF THE CONTEMPORARY MECHANISM OF INDUSTRIALISATION IN DEVELOPING COUNTRIES

Industrialisation in developing countries is a result of an intricate and contradictory interaction of purposive state policy and the free play of market forces. And in each country this interaction is by far not the same and, as a rule, it leads to results which essentially differ from those originally expected.

The industrialisation strategy of every country (as one of the major and integral components of the general concept of a country's socio-economic development) is spelled out in detail by its ruling circles in plans and programmes of economic development. In examining the implementation of these plans it is necessary, however, to remember that purely quantitative evaluations do not yet give a true picture of the impact of the plans on the entire national economic mechanism, on the main trends of economic growth, including the industrialisation process. With this very essential reservation, we shall now try to examine in general outline the available data on the influence exerted by the development programmes on the main national economic indicators. Targets for the general growth rates of the national product in the plans of developing countries are set, as a rule, at too high a level and, accordingly, are never reached in most cases.

The table on p. 173 shows that most developing countries were unable to attain the envisaged growth rates, although they were higher than in the preceding years. But in individual cases the targets were reached and even topped.

Average Annual Growth Rates of the Gross Domestic Product of Selected Developing Countries<sup>1</sup>  
(per cent)

Country	Average for years preceding plans	Planned for the early 1960s	Actual rates, 1960-65
Morocco	0.4	6	4.1
Tunisia	1.6	6	5.2
Egypt	5.0	7	7.0
Sudan	3.2	5	3.0
Kenya	3.5	5	4.1
Tanzania	3.2	6	3.4
Syria	0.8	7	8.2
India	3.6	5.5	2.6
Pakistan	2.5	4.5	4.8
Sri Lanka	4.1	6	3.0
Thailand	5.2	5.5	4.4
Philippines	5.2	6	4.4
Chile	2.5	5.5	4.1
Bolivia	0.9	7	4.8
Colombia	4.2	5.5	4.2

Of all India's development plans only the plan for 1951-56 was exceeded; instead of the contemplated 12-per cent increase of the national product, it grew by about 18 per cent. The main reason was the favourable weather conditions which resulted in a big crop.<sup>2</sup> At the beginning of the 1960s the plans of East African states (Uganda, Tanganyika and Kenya) were not fulfilled but in 1963-65 the situation in the world markets was more favourable for these countries, and as a result the rates of their economic growth almost corresponded to those set in the plans.<sup>3</sup>

Other examples could be cited of the targeted growth rates being exceeded. As a rule, this was explained either by a

<sup>1</sup> UN. *World Economic Survey 1964*, New York, 1965, p. 27; 1967, pp. 22-23.

<sup>2</sup> A. Ghosh, *Indian Economy. Its Nature and Problems*, Calcutta, 1962, pp. 56-65.

<sup>3</sup> Paul G. Clark, *Development Planning in East Africa*, Kampala, 1965, pp. 17-45.

good harvest or better export opportunities, in other words, not so much by the internal efforts, the enlargement or modernisation of the production facilities, as by external economic causes. In a number of cases (Thailand, Pakistan and others) plans were oversubscribed chiefly through the expansion of services, trade, finance, and so on.

From this it does not follow that the plans do not promote a growth of the production facilities of the developing countries. On the contrary, they invariably provide for the building of new industrial enterprises and various measures designed to increase agricultural output (expansion of irrigation, development of new lands, and so on). But the attainment of these targets is delayed and revised. As a result, the actual effect, as seen from the table given earlier, is frequently much smaller than expected. On the other hand, in most countries the development of industry and agriculture is faster than would have been possible on a purely spontaneous basis, without development programmes.

The experience of many countries shows that in most cases development plans and programmes envisage a notable increase in the accumulation rate. It goes without saying that the initial position is by far not the same in various countries. At the beginning of the 1960s in some of them the accumulation rate was close to 10 per cent, while in others it was drawing near to 20 per cent. Correspondingly, the specific targets in the plans and programmes for the beginning and the mid-1960s greatly differed. But in a number of countries an increase of the share of accumulation in the GNP by 4-5 per cent in five years was contemplated. In some instances a higher growth was stipulated.<sup>1</sup>

The governments of most developing countries paid great attention to mobilising resources for investments. For this purpose wide use was made of the national budget, and various links of the banking and credit system were developed. Nevertheless only a few countries succeeded in achieving a noticeable growth in accumulations. Between 1958 and 1967 the accumulation rate in Thailand rose from 13 to 25 per cent; in Pakistan, from 9 to 13 per cent; the Philippines, from 12 to 20 per cent; Malaysia, from 12 to 17 per cent; Tunisia, from 18 to 26 per cent; Morocco, from 10 to 11 per cent; Mexico, from 15 to 18 per cent; and Chile, from 10 to

15 per cent.<sup>1</sup> In 1960-66 in a number of countries (including Brazil, Chile, Paraguay, Iran and Ethiopia) the accumulation rate remained unchanged and in about 20 countries (including countries of East Asia, Argentina, Colombia, Uruguay, Ecuador, Iran and Sri Lanka) the accumulation rate, notwithstanding the contemplated rise, actually decreased. This demonstrates how limited is the influence exerted by the state on major economic processes.

These general data conceal different results in mobilising internal and external resources. In many countries the share of internal sources actually exceeded appreciably the figure set in the plans, while the share of external resources was noticeably below the expected figures. Moreover, in absolute volume internal accumulations reached and even topped the plan figures, while external sources of financing in many cases were considerably smaller than expected.

Such a relationship between the internal and external financing sources of developing countries is explained by a number of circumstances.

External financing is a kind of balancing item: in addition to the already agreed sums of foreign loans and subsidies, the plans and programmes of many countries include into this category all discrepancies and shortages of resources, the entire gap between the contemplated expenditure and the expected receipts. By inflating this item, some developing countries expect to receive more funds from international sources. But this alone cannot explain the existing "under-fulfilment" of the external financing plans. Of essential significance is also the fear of private monopolies to invest their capital in politically unstable regions and the policy of the imperialist states which are curtailing their aid programmes to countries that pursue an independent policy, and are granting loans and subsidies on ever more difficult terms and confining their aid to a restricted number of states. In response to this neo-colonialist policy, some developing countries plan to reduce the role of external financing and to orient themselves on their own resources.

Speaking about the general volume of capital investments, we should emphasise that it does not give an idea of the size of the productive capacities commissioned. In almost all

<sup>1</sup> UN, *Statistical Yearbook 1968*, Paris, 1969, pp. 558-65. Data for Tunisia and Pakistan as of 1966.

<sup>1</sup> UN, *World Economic Survey 1964*, p. 30.

plans the changes of productive capacity are not registered independently, while the available statistics do not analyse the real changes of this indicator (they are substituted by indirect data on the changes in production which, as pointed out earlier, reflect the influence of many other factors). Information about the accumulation rates is usually not specified in any indicators of the efficiency of capital investments. Numerous facts, however, show that the inefficiency or low efficiency of capital investments and the unjustified diffusion of both state and private resources and the dragging out of the periods of construction are very acute questions in Asian, African and Latin American countries. The differences between individual countries (including differences in the socio-economic ways of development) do not change these economic tendencies.

Even more involved is the evaluation of the influence exerted by plans and programmes on the pattern of the national economy. As pointed out earlier, most of the plans pursued the aim of giving priority to the development of industry. Correspondingly, they envisaged a swift growth of industrial output and the gradual increase of the share of industrial goods in the GNP. Suffice it to say that the plans and programmes which operated in the early and mid-1960s called for an annual increase in the output of the manufacturing industry as follows: India, Sri Lanka, the Arab Republic of Egypt, Tanzania, Venezuela and Ethiopia, by 10-14 per cent; Pakistan, Ghana, Chile, Morocco and Tunisia, by 6-9 per cent.<sup>1</sup>

The economic policy of a number of countries was aimed at accelerating state and private investments in industry. It brought about quite tangible structural shifts: in 1958-66 the share of manufacturing in the national product of Chile rose from 19 to 27 per cent; Sri Lanka, from 5 to 7 per cent; Iran, from 26 to 32 per cent; Malaysia, from 9 to 11 per cent; Turkey, from 14 to 16 per cent; Philippines, from 18 to 19 per cent; Brazil, from 25 to 27 per cent; Mexico, from 25 to 30 per cent; Tanzania, from 3 to 6 per cent; Nigeria, from 4 to 6 per cent; Ivory Coast, from 7 to 9 per cent.<sup>2</sup>

At the same time shifts not envisaged in the plans are taking place in the economic pattern of many developing

countries. Mention should be made of the swift growth of the service sphere and of trade and financial activity in a number of countries.

One of the major functions of planning in Asian, African and Latin American countries is to change the existing pattern of the national economy and ensure, at each stage of development, optimal proportionality and reciprocal dovetailing of different links of the economy, co-ordination of economic and social processes. But in the course of formulating a plan or a programme even at the level of overall macro-economic indicators huge disproportions are often built in. Some indicators are set in a voluntarist way without due economic justification, other indicators are not co-ordinated.

In the course of the implementation of the development plans and programmes the imbalances and unco-ordinated elements they contain, as a rule, are supplemented by new ones, because some plan assignments are fulfilled and even exceeded, while others remain unfulfilled to a different extent.

In many countries the planned targets of investments in industry and agriculture are not met, while the expenditure for the state machinery is invariably topped (even several times over); in a number of them the plan indicators for imports are exceeded, while the level of exports is not reached. The result is a rise in the deficit of the trade and payments balances and bigger foreign exchange and financial difficulties.

These disproportions at the macro-economical level conceal even more substantial discrepancies at the micro-economic level, the more so since only a few plans provide for a detailed specification of the macro-economic indicators. Where it exists, however, it is systematically violated. Thus during the period of India's Third Five-Year Plan, the increase in iron ore production was 73 per cent of the planned figure; coal 29 per cent and steel 17 per cent. Only in exceptional cases are the obligatory plan assignments passed down to the enterprises or any co-operation between them is arranged.

Other instances can be mentioned when the efforts made by the state do not produce the expected results and are insufficient for resisting spontaneous processes. Thus, many plans and programmes set the task of developing economically backward regions. As a rule, attempts are made to

<sup>1</sup> UN, *World Economic Survey 1964*, p. 40.

<sup>2</sup> UN, *Statistical Yearbook 1968*, pp. 568-75.

achieve it by developing a new industrial and commercial centre in such a region. Extensive projects are prepared which presuppose the expenditure of considerable resources. But actually even the investments allotted by the government are not fully utilised; as for private capital, it is almost not invested there at all. Considerations of current profitability and the desire to reduce the expenditure for the economic and social infrastructure result in that the main part of the new enterprises, both private and public, are built in the old economic centres.

Most plans and programmes of developing countries proclaim the need to reduce the gap in incomes of different sections of the population. But in countries which follow the capitalist path, no serious action along these lines is taken. The result is that property inequality is swiftly increasing.

The quoted materials about the implementation of the various development programmes and plans show that the set aims and the degree of their attainment are by far not the same in various countries. But the chief distinction of plans and programmes of individual countries consists not so much in this as in the mechanism with the help of which governments expect to attain the goals they set. It is the nature of this mechanism that largely reflects the concrete socio-economic trend of the development plans and programmes and, specifically, their industrialisation policy.

Are the goals to be achieved primarily with the help of spontaneous processes (in particular, with the help of the market mechanism) or as a result of purposeful influence on economic and social processes by the state? Closely intertwined with this question are many problems of the social pattern, in the first place the proportions and interrelations of the public and private sectors. The development plans and programmes and industrialisation strategy of most Asian, African and Latin American countries proceed from recognition of the fact that both a public and a private sector will exist simultaneously for a long time. But the correlations between these sectors differ widely in various countries, and a keen struggle over the prospects of these ratios is now fought between proponents of different ways of socio-economic development.

The intertwining of the economic and political aspects of the contemporary mechanism of national economic regula-

tion in developing countries is making itself strongly felt in this respect.

The proponents of capitalist development cannot ignore the objective need for extending the economic functions of the public sector. Nevertheless they do everything to confine them within narrow bounds in the interests of private enterprise. On the other hand, supporters of non-capitalist development are taking measures to expand the public sector, raise its efficiency and turn it into an active instrument for remaking society. In this connection a struggle is being waged in many directions.

Evaluation of the influence of development plans and programmes on the correlation and interaction of the public and private sectors is particularly intricate because both the tasks set in various countries and the degree of their solution are extremely uneven and at times are directly opposite. It is perfectly clear, however, that both the nature of the tasks and the degree of their fulfilment cannot be characterised only on the basis of overall quantitative indicators. Thus, in view of the weakness of the private capitalist sector, in some of the least developed countries of West Africa (which openly proclaim their intention to develop along the capitalist path), the share of the public sector in the creation of the national product or in the total volume of investments is higher than in countries which follow the non-capitalist path.

The share of the public sector in new investments or in national production is a general indicator which naturally does not offer an answer to the question concerning the nature of relations between sectors, the redistribution of the national income between them and also as to what sector holds key positions in the national economy. These questions are not raised in most of the plans and programmes. The latter lay down only the main principles which are spelled out in economic policy measures.

The distinctions in the functioning of the market mechanisms in developing countries examined earlier, the insignificant scale of the social division of labour within a country, the big part played by the state in shaping the home market, the restricted possibilities of regulating the private sector, and the increasing importance of uncontrolled side effects (engendered but not envisaged by individual economic measures)—all this leaves an imprint on the entire process

of socio-economic development in Asian, African and Latin American countries.

In capitalistically oriented countries the activity of the state in effect is designed to shape and introduce capitalist relations of production. Accordingly, these countries apply different alternatives of the strategy of capitalist industrialisation, which presupposes wide orientation on the spontaneous market mechanism and private enterprise. Under this strategy, the profitability and competitiveness of enterprises in economically less developed countries are based not so much on modern equipment and production methods as on more intensive exploitation of the working people. In countries following the non-capitalist path the state tries to curb and in many respects to resist spontaneous processes, to subordinate them to the objective needs of national development and to ensure an improvement in the welfare of the working people. In these conditions expansion of production presupposes the maximum introduction of modern equipment and production methods. Restriction of the sphere of spontaneous market relations and maximum subordination of the activity of private enterprise to the interests of social development are an inalienable feature of industrialisation in countries of a non-capitalist orientation. Successful industrialisation presupposes expansion of effective state control over the national economy, guidance of economic processes, expansion of the basis for the planned influence on all the economic and social aspects of a country's life. Success of socio-economic development, particularly of industrialisation, also depends on another major factor which, as a rule, is not given due attention. We refer to the conscious participation of the masses in the social development process. The low level of the productive forces and the acute shortage of material resources—that grave legacy of colonialism—makes especially significant the active participation of the masses in the development of the national economy, their conscious approach to the difficulties facing the country, readiness to work and make sacrifices in order to end their country's economic backwardness. Without this it is impossible to mobilise important potentialities for the expansion of production and solve many of the most urgent problems.

The need for drawing the working masses into the social development process is widely recognised everywhere. Today, however, the overwhelming part of the population in

most developing countries is actually barred from social life. The social relations which are emerging in capitalistically oriented countries undermine the basis for the active conscious participation of the masses in the economic development process.

In these conditions it is extremely important to undertake deep-going democratic changes both in the economic and in the social sphere, in order to rally the masses and rouse them to conscious action in developing the economy and building a new society. There is wide awareness of this need in countries which have taken the non-capitalist path. Appropriate measures for creating new motive forces of social development, progressively changing a country's socio-economic pattern (expansion of the public sector, the implementation of a democratic land reform, subordination of the activity of foreign capital to the needs of the national economy, and so on), hold an important place in development plans and programmes. Great effort is made to re-educate people and thereby an important basis is created for more successful economic development. In developing countries, mobilisation of the masses and advancement of their activity and political consciousness are necessary factors of economic development.

## THE FOREIGN MARKET AND DIVERSIFICATION OF THE ECONOMY OF DEVELOPING COUNTRIES

Owing to the low level of development and one-sided pattern of the national economy, production in the developing countries, as pointed out earlier, is unable to keep in step either with the general diversification of the internal demand or changes in its volume by commodities as are engendered by the process of economic growth. That is why a decisive part in ensuring the balance of goods is played by imports. Through foreign trade channels developing countries receive the equipment, lacking raw materials, semi-manufactures and other goods needed for industrialisation. A wide range of manufactured consumer goods is also bought in foreign markets. Lastly, imports help to cover the shortage in food and other farm produce. Moreover, the objective need to attain a better balance between the supply and demand puts to the fore the faster increase of imports (as compared with the general economic growth rate).

This task becomes particularly urgent in the period of restructuring the economic pattern of industrially backward countries in view of the greater demand for producer goods, which is not backed by the growth of the respective internal resources. This is also caused by the fact that the demand for the given group of goods in conditions of extended reproduction is bound to outstrip the increase in the general purchasing power of society. Consequently, the capacity to import determines not only the current economic situation but also the very possibilities of economic progress in Asian, African and Latin American countries.

In turn, the capacity to import depends above all on the volume of the available and future export resources and on

the terms and possibilities of their sale in foreign markets because the export receipts are practically the only source for repayment of external loans. Thus, ultimately exports serve as the main instrument for levelling off structural disproportions and ensuring the commodity balance in the economy of developing countries. Export receipts cover a considerable, often the overwhelming, part of the needs of Asian, African and Latin American countries in capital equipment, technical services and other goods which make up the real content of the accumulation process. In other words, exports are a major source of providing foreign exchange for economic activities in general and industrial growth in particular.

### 1. THE ROLE OF EXPORTS IN INDUSTRIALISATION

The general state and the commodity structure of the export industries in developing countries are determined chiefly by the system of the unequal division of labour which arose in the epoch of colonialism. To this day many of these countries act in the world market as suppliers of two or three or even one food crop or raw material, the exports of which are of critical importance for their economic position. The degree of the mono-product specialisation of individual developing countries in the framework of the international division of labour can be judged from the table on p. 184.

The table includes some countries in which the exports of one commodity ensured not less than half of their total export receipts at the beginning of the 1960s. In six countries (one-third of the total) the chief commodity accounted for more than half of all the exports; in seven (39 per cent), this share exceeded two-thirds; and in four others (27 per cent), it amounted to nine-tenths and even more of the total value of exports.

Since commodity-money relations are little developed in many countries, this makes it possible to speak even of the mono-product specialisation of the entire national economy. Moreover, a certain (frequently quite considerable) part of the receipts from the export sector still flows into the safes of foreign monopolies.

For the nature of export specialisation developing countries can be divided into three main groups: countries which supply chiefly mineral raw materials to the world market,

Export Specialisation of the Economy  
of Selected Developing Countries at the Beginning of the 1960s<sup>1</sup>

Country	Main export commodity	Share of the main export commodity, per cent	
		in the gross domestic product	in the total value of exports
Burma	Rice	10-13	65-70
Bolivia	Tin	15-20	55-65
Brazil	Coffee	6-8	58-63
Gambia	Ground-nuts	20-30	85-90
Ghana	Cacao	20-30	60-65
Guatemala	Coffee	12-15	70-75
Egypt	Cotton	11-14	70-75
Iran	Oil	18-22	80-85
Colombia	Coffee	15-20	75-80
Kuwait	Oil	85-98	98-100
Liberia	Rubber	—	62-67
Niger	Ground-nuts	—	82-87
El Salvador	Coffee	17-21	72-77
Saudi Arabia	Oil	70-75	85-90
Senegal	Ground-nuts	—	87-92
Sri Lanka	Tea	18-30	60-65
Ethiopia	Coffee	6-8	50-55

countries which export primarily agricultural commodities, and countries where the production of mineral and agricultural raw materials for export is developed more or less equally. As demonstrated earlier, these distinctions in export specialisation have not produced fundamental differences in the economic pattern of individual countries. Moreover, any grouping of developing countries by the types of exported raw materials and foodstuffs is of strictly relative significance because it is changed by the course of economic development.

In an effort to raise their capacities to import and thereby ensure the needs of industrialisation, Asian, African and Latin American countries are taking measures to extend

<sup>1</sup> See *Mirovaya ekonomika i mezhdunarodniye otnosheniya* No. 6, 1962, p. 87; UN. *Statistical Yearbook 1962*; UN. *Yearbook of International Trade Statistics 1961*.

and diversify their exports. Work along these lines is conducted both independently and by enlisting private foreign capital for which, as in the past, the development of natural resources is the main attraction. In a number of countries the efforts to diversify exports have produced certain results, in many others their mono-product specialisation has been deepened. Thus, between 1955/56 and 1964/65, Chile's narrow export specialisation was somewhat broadened by increased production and exports of iron ore; in Burma, this was facilitated by the production of briquettes from oil-bearing seeds; in the Arab Republic of Egypt, the growing of rice; in Nigeria, Algeria and Gambia, the organisation of oil production; and so on. In Liberia iron ore and concentrates became the chief export items instead of rubber; in Libya and Gambia the place of farm produce exports was taken by oil. On the other hand, dependence on the exportation of one commodity increased in Bolivia, Ethiopia, Sierra Leone and a number of other countries.

Diversification of the exports of these countries by extending the range of exported raw materials and foodstuffs helps to lessen the dependence of their economy on fluctuations of prices in the world market. But the production of new kinds of raw materials for export, just as the increase in the output of traditional export commodities, hampers the general reconstruction of the backward economic patterns by diverting a considerable part of the limited resources.

The narrow specialisation of developing countries in the exports of food and raw materials, consolidated by the mechanism of capitalist reproduction, is in sharp conflict with the main tendencies of world production and demand and thereby with the trends in the development of international trade where manufactured goods play a steadily increasing part. This is explained by changes in the socio-economic parameters and the general pattern of production in industrially developed countries under the impact of the scientific and technological revolution. Here mention can be made of the reduction in the share of material-intensive industries, a general decline in the consumption of raw materials per unit of finished goods, successes in the manufacture of synthetic substitutes for many agricultural raw materials and the beginning of their substitution for mineral raw materials, the extensive utilisation of wastes, expansion of agricultural output and the working of formerly unprofitable

mineral deposits. At the same time the accelerated growth of trade in manufactured goods is caused by the intensive process of inter- and intra-sectoral specialisation of individual industrial countries in the framework of the international division of labour and by shifts in the composition of the consumer demand which are linked with the growth of incomes and the impact of the "consumer civilisation".

Unfavourable tendencies in the foreign trade demand have affected diverse raw materials and food not to the same extent. It was pointed out in the *World Economic Survey*, 1958 that since the second half of the 1920s "only a handful of commodities, notably petroleum, aluminium, copper, coffee and cocoa, produced export earning whose purchasing power over imports matched the rate of economic growth in the developed countries".<sup>1</sup> As for the receipts of developing countries from exporting other kinds of agricultural raw materials, they increased slower than the economy of the industrially developed states because of the reduced demand and the resultant drop in prices. The same tendencies in foreign trade demand operate to this day. Thus, between 1955 and 1967 world trade in ores and non-ferrous metals increased respectively by 6.1 and 6.9 per cent annually, fuel 6.3 per cent, food 5.1 per cent, and agricultural raw materials by 1.9 per cent.<sup>2</sup> Consequently, countries exporting farm produce are in the worse position and they are in the majority in the developing world. Oil-exporting countries have been less affected by unfavourable tendencies, because their position is reinforced by the big share of this commodity in international trade. But the number of such countries is quite limited.

The unfavourable situation in the markets of raw materials and food impels the developing countries to accelerate industrialisation but at the same time slows down this process because of the inability of the traditional export output to ensure the swiftly growing import needs.

In a search of a way out of this "vicious circle" many Asian, African and Latin American countries, alongside measures to extend traditional exports, are energetically trying to include local industrial output in international trade. They are also compelled to do so by the pressing need for

<sup>1</sup> UN. *World Economic Survey*, 1958, April 28, 1959, p. 20.

<sup>2</sup> UNCTAD. *Handbook of International Trade and Development Statistics*, 1969, New York, 1969, p. 122.

additional markets for the sale of the output of their emerging industry. As a result, favourable shifts were registered in the composition of exports of developing countries in the last 15-20 years. These shifts stand out most clearly in analysing their trade with traditional partners in the world capitalist market.

Between 1950 and 1970 the exports of manufactured goods from developing countries to the world capitalist market rose in current prices by 8.9 per cent annually on the average, while the exports of the entire group of foodstuffs and raw materials rose by 4.7 per cent. In 1970 manufactured goods accounted for 29 per cent of the increment in exports over 1950, while their share in all export receipts rose from 11.6 to 22.9 per cent during the same period. On the other hand, about half of the increase in exports in 1970 was on account of oil which, together with agricultural commodities that provide 42 per cent of the exports, account for 78 per cent of all exports and continue to determine the position of developing countries in the world market.

Exports of Developing Countries to States  
of the Non-Socialist World<sup>1</sup>

(in million dollars, current f.o.b. prices)

Year	Food	Raw materials	Fuel	Manufactures	Total <sup>2</sup>
1950	6,050	6,500	3,250	2,140	18,260
1953	7,580	5,960	4,330	2,450	20,410
1955	7,490	6,610	5,690	2,950	22,880
1958	8,010	5,580	7,130	2,750	23,610
1960	7,750	6,840	7,440	3,750	25,880
1963	8,770	6,670	9,170	4,710	29,470
1965	9,220	7,200	11,010	6,150	33,760
1966	9,330	7,520	11,770	7,290	36,050
1967	9,480	7,030	13,020	7,820	37,510
1968	9,810	7,370	14,730	9,230	41,300
1969	10,510	8,500	16,020	11,310	46,570
1970	12,290	9,380	17,900	11,780	51,520

<sup>1</sup> *Monthly Bulletin of Statistics*, January 1964, p. XII; November 1965, p. XXIV; November 1971, p. XLVII.

<sup>2</sup> Includes other exports.

At the present stage of capitalism's general crisis, favourable changes have also taken place in the direction of the main export flows of developing countries. Expansion of mutually beneficial trade with socialist states is at the root of this process.<sup>1</sup> Since the mid-1950s export trade of developing countries with socialist states has been growing almost three times as fast as their total exports.

Notwithstanding these shifts, as a result of the deeply rooted dependence on the world capitalist market, industrial capitalist states are the main partners of most developing countries in foreign trade and other types of external economic relations and apparently will continue to be for quite a long time.

The table on p. 189 shows that notwithstanding the obvious progress in economic co-operation with the socialist world the main exports from the developing countries, as hitherto, went to developed capitalist states in 1955-70. That is why the general state of their foreign trade and the consequent possibilities of industrialisation depend chiefly on the trends in the development of the demand and prices in the world capitalist market.

The fact that the least dynamic agricultural raw materials prevail in the exports of developing countries explains why they are being ousted progressively from the world market as expressed in the steady decrease of the share of this group of states in international trade. While in 1950 they accounted for 31.2 per cent of world exports, including exports of socialist countries, in 1970 the figure was only 17.6 per cent. Without oil the share of all their exports dropped respectively from 24.4 to 12.7 per cent.<sup>2</sup>

Their unequal positions in the international division of labour inherited from the past deprives developing countries of the possibility of utilising more widely, in their interests, the growth of industrial specialisation, which is the main basis for expanding international trade in the present epoch. But that is only part of the problem. Actually, since the early

<sup>1</sup> For more details see Chapter VI.

<sup>2</sup> UNCTAD, *Review of International Trade and Development*, 1967, New York, 1968, p. 10; *Review of International Trade and Development*, 1971, Part 1, p. 14 (TD/B/369), Add. 1.

Exports from Developing Countries  
by Main Groups of Countries<sup>1</sup>  
(per cent)

Group of countries	1955	1960	1969	1970	1971
Industrially developed capitalist states	72.2	71.0	72.5	73.5	74.1
Developing countries <sup>2</sup>	25.4	24.7	22.2	20.7	20.5
Socialist states <sup>3</sup>	2.4	4.3	5.3	5.8	5.4

1950s they have also been gradually losing their position in the traditional food and raw material markets. Owing to the insufficient growth rate, the share of raw materials (without oil) and food reaching the world capitalist market from developing countries in the exports of all non-socialist states dropped from 46 per cent in 1953 to 35 per cent in 1970.<sup>4</sup>

Just as the general squeezing out of developing countries from the world market this phenomenon stems from two causes. First comes the change in the structure of world production and demand noted earlier. The other serious obstacle to exports from developing countries is the trade and the economic policy of the capitalist states.

The exports of farm produce, which accounts for more than three-fifths of the international trade in all agricultural raw materials, are hampered, besides progress in the production of synthetic substitutes for raw materials of animal and plant origin (natural fibre, rubber, hides and skins, and others), by the policy of agrarian protectionism in imperialist states. Exports of the products of tropical farming (tea, coffee, cacao beans, spices and others), which do not compete with local production of industrial capitalist states, are restrained by tariff barriers, import quotas and / or high internal taxes on their consumption. The partial export re-

<sup>1</sup> *Monthly Bulletin of Statistics*, March 1961, p. XVIII; March 1962, p. XVIII; March 1970, p. XVIII; March 1972, p. XVIII.

<sup>2</sup> The difference between the total value of exports and the value of exports to the three main groups of countries is caused by the trade between the developing countries themselves.

<sup>3</sup> Exclusive of Yugoslavia.

<sup>4</sup> *Monthly Bulletin of Statistics*, November 1968, p. XXVI; November 1971, p. L.

orientation by some capitalist states of their swiftly growing production of food and raw materials also leads to the direct ousting of former colonies and semi-colonies from their traditional markets.

On the whole, notwithstanding the comparatively rapid advance (as compared with the prewar period), the export trade of developing countries has for a long time been lagging behind their general economic growth and also behind the import needs it generates. In 1950-67 the exports of developing countries increased on the average by 4.4 per cent in current prices and by 3.8 per cent in physical volume annually, while their average general economic growth rates were 4.5 per cent.<sup>1</sup> Apparently, with such a relationship in the growth rates exports could not properly discharge the function of maintaining and stimulating industrial progress. On the contrary, their insufficient expansion acted as a brake on industrialisation. The situation changed for the better only in the second half of the 1960s. However the main factors which predetermine the unfavourable position of developing countries in the world market actually continued to operate with the same force.

Even in years of comparatively favourable economic activity, a considerable part of the export output of the developing world in the existing assortment lacks essential stimuli to growth. Therefore, in the first half of the 1960s, for example, exports increased more or less satisfactorily only in a few developing countries. According to UN data, between 1955 and 1965 exports increased annually by 6 per cent and more only in 25 out of 71 Asian, African and Latin American states. Having 18 per cent of the population (1965 data) of the 71 countries, these 25 states received 34 per cent of their total export receipts.<sup>2</sup>

The quite limited possibilities for expanding the exports of developing countries, determined by their composition, on the one hand, and the trade and economic policy of imperialist states, on the other, are supplemented by the unfa-

<sup>1</sup> See *Mirovaya ekonomika i mezhdunarodniye otnosheniya* No. 5, 1969, p. 151; UNCTAD. *Handbook of International Trade and Development Statistics*, 1967, p. 8; *Monthly Bulletin of Statistics*, March 1969, p. XVI.

<sup>2</sup> UN. *World Economic Survey 1967*, Part I, p. 41. Taking into account individual countries which had belonged to the former Federation of Rhodesia and Nyasaland.

voritable tendency of world prices of the raw materials and food sold by these countries. It is characteristic that even within the bounds of one commodity group the movement of prices of products exported by imperialist states, as a rule, is more favourable than of commodities exported by developing countries. Not infrequently prices of export goods of industrial capitalist and developing countries in one commodity group change in directly opposite directions. Thus, in 1964-66 the price index (1954-56 equals 100) of food and mineral raw materials supplied to the world market by highly developed capitalist states rose by 14.4 and 8.6 per cent respectively as compared with the level of 1959-61. During the same period prices of food and mineral raw materials from developing countries increased respectively only by 10.4 and 2.1 per cent. As for agricultural raw materials, prices of the part exported by industrial capitalist states rose by 5.6 per cent during this period, while those of the part from developing countries, on the contrary, decreased by 8.3 per cent.<sup>1</sup> The "price gap" is even bigger between raw materials and manufactured goods which account for the main mass of exports by developing and industrially developed capitalist states respectively. In 20 years (1950-70) the purchasing power of raw material exports in relation to manufactured goods dropped by more than one-fourth in the world capitalist market.<sup>2</sup>

In view of this the terms of trade of developing countries, measured by the relationship of export and import prices, are progressively growing worse on the whole. Only between 1961 and 1967 their losses in trade with developed capitalist states owing to the unfavourable ratio of export and import prices (as compared with the average level of 1953-57) amounted to \$17,300 million or almost \$2,500 million annually on the average.<sup>3</sup> Here is conclusive evidence illustrating the scale of exploitation of developing countries in international trade by imperialism which robs these countries of part of the income created by the labour of their peoples.

Alongside the unfavourable long-term trends in price-formation the industrial progress of developing countries as a

<sup>1</sup> UN. *World Economic Survey 1967*, Part I, p. 43.

<sup>2</sup> *Monthly Bulletin of Statistics*, November 1965, p. XXIV; November 1971, p. 1.

<sup>3</sup> UNCTAD. *Handbook of International Trade and Development Statistics*, 1969, p. 155.

whole is seriously impaired by short-term price fluctuations to which trade in food and raw materials is very susceptible.

The steep rise and fall of prices of raw materials, determined by spontaneous changes in the relationship of the demand and supply, are frequently deepened by speculative operations of raw material monopolies and the pressure of the imperialist powers on the market of raw material and food for political or economic reasons. With their tremendous dependence on the current export receipts developing countries are unable to set up foreign exchange reserves during the rise of raw material prices or hold their exports in periods of lower prices. The worsening of the market situation at once aggravates the economic position of industrially less developed countries, undermines their possibility to guide industrial construction in a planned way and at times even leads to serious political upheavals.

The important role of raw materials and food in exports predetermines the need for stabilisation of the market of these commodities in order to strengthen the foreign trade positions of developing countries. In recent years this problem has become the subject of discussion at numerous international economic forums and inter-state conferences. UNCTAD devotes serious attention to it in its activities. The purpose of the broad and multilateral discussion of this problem at all levels is to formulate and conclude international commodity agreements. In principle their substance resolves to the establishment of production and export quotas of individual commodities so as to achieve a higher and relatively stable level of prices. One of the terms of these agreements also includes the idea of setting up buffer stocks and compensation funds with the object of achieving greater conformity between the demand and supply, on the one hand, and certain stabilisation of the foreign exchange receipts of raw material exporters, on the other.

It was repeatedly stressed at UNCTAD sessions that the work of concluding international commodity agreements encountered tremendous difficulties. At the time the second session was held agreements on only four commodities were concluded: coffee, tin, olive oil and wheat. Moreover, since the main suppliers of wheat in the world market are industrially developed states, the last of the above agreements is more important for them than for developing countries. However, notwithstanding the many years of negotiations to

stabilise the market of cacao beans, sugar, tea, rubber, copper and a number of other commodities, so far the countries concerned have not been able fully to co-ordinate their positions.

While recognising the positive role of international commodity agreements for stabilising raw material markets, it should be noted that in their present form they can offer only a partial solution to this problem. Its fuller solution demands the abolition of agrarian protectionism in industrially developed states, the removal of customs, quantitative and other artificial restrictions to the imports of raw materials and food from developing countries and ultimately agreements which guarantee not only stabilisation but also a subsequent increase of the share of Asian, African and Latin American countries in the food and raw material markets of highly industrialised states.

One cannot but agree with the following statement of R. Prebisch at the first UNCTAD session: "The easing or elimination of protectionism in the industrial centres could have a far-reaching effect on the prices of the goods benefiting thereby. But it would be idle to believe that this can have any decisive effect on the downward trend of the terms of trade for primary commodities in relation to industrial products."<sup>1</sup>

Many developing countries understand the restricted benefits of commodity agreements and their transitory significance. Therefore their representatives bring up the question of organising broad international co-operation, which as time goes on would enable industrially backward countries to divert, with the least losses, part of their resources to the expansion of other, more promising lines of production that would facilitate the economic progress of all countries in the international economic community.

No less serious problems stand in the way of exported manufactured goods. Notwithstanding noticeable progress, export trade of developing countries in manufactured goods is growing much slower than that of industrial states. Correspondingly their share in world commerce is shrinking.

<sup>1</sup> Raúl Prebisch, "Towards a New Trade Policy for Development"—*Proceedings of the United Nations Conference on Trade and Development*, Vol. II, New York, 1964, p. 10.

Share of Developing Countries in World Industrial Exports<sup>1</sup>  
(per cent)

	1955	1960	1968	1969	1970
All output	7.2	5.4	5.9	6.3	6.3
of which					
textiles	14.0	14.5	14.7	14.9	15.0
metals	16.9	12.4	15.2	15.3	13.8
chemicals	5.1	3.5	3.5	3.7	3.7
engineering					
goods	0.7	0.7	1.1	1.3	1.5
other articles	6.5	5.8	8.4	9.0	9.6

An essential part of goods exported from developing countries under the item "manufactured goods" can only be placed in the category of industrial exports with reservations. One UNCTAD study estimates industrial exports of developing countries to developed capitalist states at \$7,000 million in 1965, but the reservation is made that if unwrought base metals, petroleum products and some other goods were excluded "because they are largely either products which are simply transformed raw materials and / or re-export items, the total value of the remaining imports of the manufactures and semi-manufactures from developing countries in 1965 was \$3,585.3 million",<sup>2</sup> that is almost half.

But even this is not the crux of the matter. The expansion of international trade in manufactured goods is taking place chiefly on account of the output of such technically highly sophisticated sectors as the engineering and chemical industries. An idea of the movement in the foreign trade demand for manufactured goods in a number of leading categories can be gained from the following data (see table on page 195).

But in developing countries the industries which produce goods with the highest elasticity of demand are still in an

<sup>1</sup> *Monthly Bulletin of Statistics*, March and April 1961; March 1962; April 1964; May 1966; July 1972, pp. XXVIII-XXXV.

<sup>2</sup> UNCTAD. *Dynamic Products in Developing Countries' Exports of Manufactures and Semi-Manufactures*, October 1967, p. 20 (TD/B/C. 2/47).

Elasticity of Demand for Manufactured Goods in Developed Capitalist States<sup>1</sup>

	Index of elasticity of demand
All manufactured goods (without the output of the food industry)	1.4-2.0
of which	
textiles, including clothing	0.7-0.8
metals	1.2
chemicals	2.1
machinery and equipment (excluding motorcars)	1.5-2.0
durable consumer goods	2.7

embryonic stage and cannot contribute any sizeable output for export. At the end of the 1960s two most dynamic groups of goods in industrial exports of developing countries still did not reach even one-sixth of the total volume, while in the exports of manufactures from the developed states these goods accounted for almost two-thirds. On the average more than four-fifths of all the industrial exports of developing countries consisted of goods of the light industry and metals.<sup>2</sup>

On the whole industrial exports of developing countries both for their share and composition bear the definite imprint of general economic backwardness. They are increasing chiefly on account of the processing industry and often only of primary processing of the exported raw materials. Incidentally, the creation of such an industry represents one of the important forms of industrialisation in some less developed countries.

According to customs statistics of industrially developed capitalist states, between the mid-1950s and the mid-1960s the share of industrial output formerly imported by them from developing countries in the form of unprocessed raw materials rose in the imports of fruit from 9 to 13 per cent,

<sup>1</sup> Indices are calculated on the basis of data of the main importing countries. Alfred Maizels, *Industrial Growth and World Trade*, Cambridge, 1963, p. 42.

<sup>2</sup> UNCTAD. TD/B/C. 2/47, p. 61; *Monthly Bulletin of Statistics*, March, May 1970.

Industrial Exports of Developing Countries<sup>1</sup>

	1955 million dollars	per cent	1960 million dollars	per cent	1968		1969		1970	
					million dollars	per cent	million dollars	per cent	million dollars	per cent
All industrial goods	3,030	100.0	3,745	100.0	9,000	100.0	11,090	100.0	12,680	100.0
textiles	660	21.8	910	24.3	1,430	15.9	1,680	15.2	1,840	14.5
metals	1,220	40.3	1,420	37.9	3,175	35.3	3,755	33.3	4,000	31.6
chemicals	240	7.9	260	7.0	590	6.5	720	6.4	800	6.3
engineering goods	120	4.0	185	4.9	720	8.0	990	8.9	1,320	10.4
other articles	790	26.0	970	25.9	3,085	34.3	3,945	35.2	4,720	37.2

<sup>1</sup> *Monthly Bulletin of Statistics*, March, April 1961; March 1962; April 1964; May 1966; July 1972.

## INDUSTRIALISATION OF DEVELOPING COUNTRIES

## FOREIGN MARKET AND DIVERSIFICATION OF THE ECONOMY

vegetables from 13 to 24 per cent, vegetable oils from 36 to 41 per cent, hides and skins from 28 to 37 per cent, timber from 9 to 15 per cent, fertilisers from 2 to 12 per cent, iron ore from 4 to 9 per cent, alumina and aluminium from 4 to 21 per cent, copper from 51 to 60 per cent, zinc from 21 to 26 per cent, tin from 42 to 63 per cent, and textiles from 25 to 27 per cent.<sup>1</sup>

How the growth of the industry which processes the exported raw materials affects the composition of exports of individual developing countries is seen from the following data. During the same period the share of processed raw material in the export of cotton from Egypt increased in value from 6 to 25 per cent; the share of oil in the exports of ground-nuts from Nigeria, from 12 to 20 per cent; in Pakistan the share of yarn and fabrics in jute exports from 4 to 15 per cent, and in cotton exports from 8 to 42 per cent.

In assessing these tendencies we must not forget that so far the more or less high level of industrial exports is in fact the privilege of quite a small circle of countries. In the first half of the 1960s more than three-fifths of the imports of manufactures by industrial capitalist states from the developing world was contributed by 14 countries with a volume of industrial exports exceeding \$100 million annually. They include Iran, Venezuela, Trinidad and Tobago which specialise above all in the export or re-export of oil products; Chile, Malaysia and Zaire, which supply chiefly non-ferrous metals; Argentina, Algeria and Peru where the main industrial exports are provided by the food industry; and also such an exporter of textiles as India. Among the big suppliers of industrial output to the world market are also Brazil and Mexico which do not have a clearly pronounced specialisation in this sphere. At the beginning of the second half of the 1960s Egypt and Pakistan which export primarily textiles have joined the list of developing countries with industrial exports exceeding \$100 million annually. The share of the 16 biggest suppliers reached at that time two-thirds of all industrial exports of the developing world.<sup>2</sup>

Developing countries having no sufficient forces and resources for the swift restructuring of their exports in ac-

<sup>1</sup> UNCTAD. *Commodity Survey 1967*, Tables 15, 16, pp. 61-63 (TD/B/C. 1/46).

<sup>2</sup> UNCTAD. TD/B/C. 2/47, pp. 24, 61; UN. *World Economic Survey 1967*, Part I, pp. 93-94.

cordance with the main tendencies of development of world foreign trade encounter serious difficulties in extending the exports of goods manufactured by processing traditional raw materials. The main obstacle to increasing the exports of these goods, as in the case of food and raw materials, is the prevailing trade policy in the world capitalist market.

Trend of Industrial Exports of Developing Countries<sup>1</sup>  
(per cent)

	1955	1968	1969	1970
To industrially developed capitalist states	66.2	71.3	70.8	70.7
To developing countries	32.2	25.0	25.5	25.6
To socialist states	1.6	3.7	3.7	3.7

Under the existing economic ties industrial capitalist states absorb from two-thirds to seven-tenths of all the industrial products exported by developing countries. Moreover, owing to the relative reduction of reciprocal trade between countries of Asia, Africa and Latin America the importance of the markets of developed capitalist countries for their industrial output is rising. Yet the exports of these goods are running up against high protective duties, quotas and other restrictions.

One of the specific features of the operating customs duties in most industrial capitalist states is that they provide for higher duties on the simplest industrial goods coming from developing countries. These are textiles and leather articles, clothing and footwear and also semi-manufactures and finished goods from timber and metals. Moreover, in a number of cases the tariff system of capitalist states is in substance of a discriminatory nature directed against the exports of developing countries. The customs duties rise with the degree of processing of the imported goods. Let us take, for example, textiles. The imports of raw cotton, as a rule, are duty-free in the United States, the Common Market countries and

<sup>1</sup> *Monthly Bulletin of Statistics*, March 1961, pp. XVIII-XXX; July 1972, pp. XXIX-XXXI.

Japan. The duty on yarn in the United States ranges from 5 to 29 per cent *ad valorem*; in Japan, from 5 to 15 per cent; and in EEC countries, 8 per cent. But the duty on imported fabrics rises to 33, 25 and 19 per cent respectively. Moreover, the United States and Britain have a special duty on the imports of cheap goods, which apparently are among the most important items in the exports of countries with a less developed industry.<sup>4</sup>

The closed economic groups of the type of the European Common Market which are based on a system of reciprocal customs privileges inflict considerable harm on the young industry of developing countries. For states which do not belong to such groups these privileges turn into direct discrimination. However, in case of association with them, as for example association with the Common Market of the former French colonies in Africa, the latter are in fact left unarmed in face of the imported manufactured goods from industrial capitalist states because the reciprocal reduction of duties with the economic inequality of the partners is of benefit to the stronger one.

Nor is the General Agreement on Tariffs and Trade (GATT) an exception in this respect. The widely advertised Kennedy Round negotiations (1963-67), conducted under the aegis of this organisation, once again demonstrated that, to put it mildly, the latter does not take due account of the interests of developing countries. In a study of the results of these talks prepared for the UNCTAD Secretariat Professor B. Balass, consultant of the International Bank for Reconstruction and Development, unequivocally stresses: "The results indicate the continuation of a tendency for tariffs on goods which are traded chiefly among industrial countries to be reduced more than tariffs on imports from developing areas."<sup>2</sup> This tendency, as rightly pointed out by R. Prebisch, former Secretary-General of UNCTAD, "will contribute to a further decline in the relative share of the developing countries in world trade".<sup>3</sup>

<sup>1</sup> For details see V. G. Pavlov, *Promyshlenny eksport v strategii ekonomicheskogo razvitiya* (Industrial Exports and the Strategy of Economic Development), Moscow, 1967.

<sup>2</sup> UNCTAD, *Trends and Problems in World Trade and Development*, TD/69, 1968, p. 4.

<sup>3</sup> Raúl Prebisch, *The Kennedy Round: Preliminary Evaluation of Results, with Special Reference to Developing Countries*, September 4, 1967, p. 4.

It is not possible to calculate the real scale of the damage inflicted on the exports of developing countries by the discriminatory trade policy of the Western powers. We subscribe to the opinion of the Secretary-General of UNIDO who stated: "If the advanced countries feel politically, socially and economically able and willing to abandon or reduce the protection of their domestic production of goods such as textiles, or to modify their tariff schedules now effectively discriminating against processed imports, there would be a field of expansion for exports from the developing countries. A shift of the producers in the advanced countries away from these industries would no doubt go very far in alleviating the balance of payments difficulties of the less developed countries before they could come up against the limits imposed by the low income elasticity of demand for these goods."<sup>1</sup>

In recent years economists of the most diverse trends and countries have widely debated the idea of specialisation of developing countries in the products of labour-intensive industries. According to the proponents of this idea, industrially developed states concentrating on capital-intensive production would be able to open their markets for labour-intensive goods of developing countries, thus ensuring the necessary conditions for the faster growth of production and exports in the latter group of countries. Arguments in favour of such a division of labour between industrially developed and developing states are usually reinforced by references to the existing differences in their provision with manpower and financial resources.

While there is a good point in this idea its elevation to an absolute is fraught with irreparable damage for developing countries. It is useful only inasmuch as its application facilitates—up to a certain stage, however—the mobilisation of additional market potentialities for growth, which under different circumstances remain inaccessible to developing countries. More favourable conditions for the growth of labour-intensive production could ensure a swifter increase of the general economic potential on the basis of which prerequisites are created for accelerated economic development in future. But for these prerequisites to be practically realised

<sup>1</sup> UNIDO. *The Need for an Export-Oriented Pattern of Industrialization*, ID/Conf. 1/56, August 25, 1967, p. 17.

Asian, African and Latin American countries, in the first place those which already have a comparatively developed industry, must not neglect other, more sophisticated industries—metallurgical, engineering, chemical, etc. Their building is dictated not only by the need to raise the general efficiency of investments and create more integrated economic complexes, but also by the necessity of placing the most dynamic lines of industrial production at the service of economic progress. Yet the development of such industries, even to a greater extent than that of labour-intensive lines of production, runs up against the shortage of foreign exchange and markets. That is why to reduce the reorganisation of the international division of labour to production specialisation strictly in conformity with the existing manpower and financial resources of individual groups of countries is tantamount to perpetuating the unequal position of the less developed group of states in the world market.

When a wide gap exists between the needs and opportunities of economic growth "the development of export industries in the new economies", in the opinion of the UN Centre for Industrial Development, "must be viewed not merely as a means of obtaining the gains from international specialization, as in the mature economies, but as a major instrument of industrialization itself".<sup>1</sup> The exports of manufactures, in the concept of experts of this Centre, are assigned the role of the main catalyst of industrialisation of economically less developed countries. Under this approach (which, in our view, is justified basically, provided the need for internal socio-economic reforms is recognised), the existing unequal system of the international division of labour apparently requires a much more radical overhauling than is proposed by advocates of specialisation in accordance with the existing factors of production.

One of the conditions for the reconstruction of this system is the lifting of all trade and political barriers to the imports of manufactured as well as primary goods from developing countries into industrially developed capitalist states. Calling for the implementation of this condition, developing countries also insist that they be given one-sided preferences by developed states because in the absence of eco-

<sup>1</sup> UN. *Proceedings of the United Nations Conference on Trade and Development*, Vol. IV, New York, 1964, p. 56.

nomic equality the extension of most-favoured-nation treatment to both trading partners places the weaker one in a disadvantageous position. Without a solution of these questions it is hardly possible to speak of any more or less full utilisation of the potentialities inherent in the international division of labour for purposes of industrialisation of the economically less developed countries.

The unequal position of developing countries in the system of the international division of labour, however, is basically linked with the low level of their development and the one-sided pattern of the economy. Consequently, the effort to improve the external conditions of industrialisation cannot be separated from the effort to mobilise all internal resources for economic growth. The logic of development, reinforced by the experience of recent years, also demonstrates the need for more effective measures to eliminate the economic disunity between developing countries inherited from the past, of pooling their efforts in industrial construction. Economic co-operation would enable the developing countries to use more rationally their market, financial and technical resources and consolidate their positions in the struggle against the dictates of international finance capital. Also, the integration of the young industry on a regional basis is an effective means of extending the exports of their industrial products to other regions.

## 2. THE ROLE OF IMPORTS IN INDUSTRIAL DEVELOPMENT

In view of the one-sided agrarian raw material nature of their economy developing countries since colonial times have been receiving a substantial part of the needed goods from the world capitalist market. With the acceleration of economic growth purchases in this market also expanded. The purpose of imports has also changed considerably and the tendency to alter their composition has emerged.

This has noticeably affected the nature of import purchases in industrial capitalist states. (See table on page 203.)

Changes in the range of goods imported from industrially developed capitalist states in general correspond to structural shifts in the economy of developing countries. The more or less stable share of raw materials and food in their imports demonstrates that sectoral disproportions connected with the lag of agriculture and the prevalence of horizontal

Imports of Developing Countries from Industrial Capitalist States<sup>1</sup>  
(per cent)

Year	Food	Raw materials	Fuel	Chemicals	Machinery and equipment	Other finished goods
1950	14.3	4.8	2.8	9.0	30.2	35.5
1955	12.2	4.1	3.2	9.6	32.6	35.7
1960	13.5	4.4	2.4	9.3	35.0	31.0
1967	13.3	4.8	1.6	11.1	38.3	28.1
1968	11.7	4.5	1.5	11.3	40.5	27.8
1969	10.4	4.1	1.5	10.6	41.0	28.1
1970 <sup>2</sup>	10.8	4.7	1.7	10.6	43.1	28.2

diversification of industry have remained throughout the period under review. At the same time in view of such a trend of industrialisation a stable tendency has emerged towards a relative reduction of imports of manufactured consumer goods which make up the lion's share of "other finished goods". No less stable is the tendency towards increasing the share of chemicals in imports. But it is the purchase of equipment needed for industrialisation that is rising at a particularly fast pace. This is a reflection of disproportion in the development of the economy as a whole and the manufacturing industry in particular. As a result the lines of goods purchased in the capitalist states reveal both the nature and, to a certain extent, the degree of dependence of developing countries on imports of the main categories of goods.

On the other hand, the changes in the composition of imports are linked with a definite turn in the policy of imperialism towards the economic future of developing countries, which is determined by the disintegration of the colonial system and the expansion of their economic co-operation with the world socialist system.<sup>3</sup> These changes in the alignment of the world political forces and the greater need for

<sup>1</sup> *Monthly Bulletin of Statistics*, January 1964, p. XII; November 1966, p. XXI; November 1968, p. XXIII; November 1971, p. XLVII.

<sup>2</sup> Estimate.

<sup>3</sup> For more details see next chapter.

markets are compelling imperialism to renounce the old policy of retarding the economic development of former colonies and semi-colonies.

The faster growth of exports of equipment from industrial capitalist states also attests to keener imperialist competition for the national markets of the developing countries on a new economic basis. Lastly, the increased share of equipment in the imports of developing countries from the world capitalist market is to a certain extent also a consequence of the substantial increase in the prices of these goods. While in 1950-67 prices of the entire group of goods bought by Asian, African and Latin American countries in capitalist states increased by 21 per cent on the average, the price index of equipment climbed 44 per cent, largely determining the general rise of prices of imported goods. As a result, while the imports of equipment from this part of the world increased by 7.7 per cent in value, in physical volume they grew only 4.7 per cent annually.<sup>1</sup> In other words, developing states in 1967 paid 60 per cent more than in 1950 for each unit of equipment purchased in capitalist states.

#### Distribution of Imports of Developing Countries<sup>2</sup>

(per cent)

	Total imports		Industrial goods				Raw materials and food	
			total		machinery and equipment			
	1955	1970	1955	1970	1955	1970	1955	1970
From Industrial capitalist states	71.4	72.7	90.1	84.5	96.8	89.6	35.3	45.5
Developing countries	25.9	18.4	7.5	8.2	1.6	3.0	60.9	46.8
Socialist states	2.7	8.9	2.4	7.3	1.6	7.4	3.8	7.7

<sup>1</sup> *Monthly Bulletin of Statistics*, January 1964, p. XIII; November 1968, p. XIV.

<sup>2</sup> *Monthly Bulletin of Statistics*, March 1961, pp. XVI-XXIX; July 1972, pp. XX-XXXI.

The distribution of imports of developing countries by the main group of states in 1955 and 1970 is one more proof of the reorientation of their external economic ties which began in the mid-1950s. This process is linked to a decisive extent with the positive influence exerted by the socialist economic system on the liberation of the Asian, African and Latin American countries from oppression by the international monopolies. The origin of the main import purchases of these countries reveals, however, their great dependence on the world capitalist market and the need for major reforms in the system of their relations with industrial capitalist states. At the same time it attests to the existence of tremendous unutilised reserves for the extension of economic co-operation among developing countries themselves, a strategically important trend of their industrialisation.

A fuller idea of the influence exerted by the present stage of industrialisation on the import needs of selected less developed countries and continents and the difficulties involved is given by information about the end use of their import purchases. In the bigger and more developed Latin American countries a tendency has emerged in recent years to stabilise or even reduce the share of machinery and equipment in total imports. In the first half of the 1960s, after a considerable growth in the preceding period, the share of machinery and equipment in Argentina's imports was cut by more than one-third, dropping almost to the level of 1950. The share of consumer goods, too, decreased by slightly more than one-third in 15 years. During the same period the share of raw materials and semi-manufactures rose steeply, exceeding half of all the imports in 1965. It is in place here to note that all the changes in the pattern of industrial output and in imports were to a large extent connected with the shortage of foreign exchange for buying scarce producer and consumer goods. In six years only (1961-66) the ratio of Argentina's imports (the proportion of imports in the gross domestic product) was cut by more than one-third (from 11.9 to 8.8 per cent).<sup>1</sup> From this it is clear that a certain acceleration of the manufacture of substitutes for imported producer goods represents a reaction to the limitations of industrial growth imposed by the unsatisfactory state of the

<sup>1</sup> UN. *Economic Survey of Latin America 1966*, p. 23.

external or export sector. The dependence on the imports of industrial raw materials and semi-manufactures which sharply increased in these conditions reveals an increasing disproportion in the pattern of the manufacturing industry and of the national economy of Argentina as a whole.

Similar processes are also observed in Brazil, with the only difference that the tendencies mentioned earlier manifest themselves in this country even more directly. In Brazil, the decrease by one-third of the import ratio (from 9.9 to 6.6 per cent), in contrast to Argentina where there was a per capita increase of export receipts, left the volume of such receipts almost unchanged (\$22 per capita in 1966 as against \$21 in 1960).<sup>1</sup> On the other hand, the process of reducing the share of machinery and equipment in her imports is more consistent in Brazil than in Argentina. In 1965 the share of this group of goods in total imports was not only much lower than in 1960 but also one-fourth below the 1950 level. On the whole the dependence of Brazilian industry on the imports of raw materials and semi-manufactures which increased rapidly did not reach Argentina's level by 1965. But it is complicated by a considerably lower provision with fuel. It is also indicative that all these changes in the composition of Brazilian imports are taking place simultaneously with a sharp decrease in the rates of industrial growth: in 1962-66 they dropped to 1.9 per cent as compared with 10.8 per cent in the preceding seven years.<sup>2</sup>

Some progress made in the pattern of Colombia's industrial output has not yet reached the stage where it would be possible to reduce the share of machinery and equipment in the country's imports. On the contrary, in the 1950s and first half of the 1960s the share of this group increased almost by one-fourth in total imports. True, in the mid-1960s the share of raw materials and semi-manufactures declined somewhat (by one-sixteenth). But this reduction occurred simultaneously with a decrease of the import ratio by one-fourth (from 16.4 to 12.6 per cent) and stagnating per capita export receipts.<sup>3</sup>

Designation of Imports to Some Asian Countries<sup>1</sup>  
(per cent)

	Years	Consumer goods		Raw materials and semi-manufactures		Invest- ment goods
		food	others	for consumer goods	for investment goods	
Developing countries of Southeast Asia, <sup>2</sup> total	1951-53	23.3	24.7	23.8	8.3	19.8
	1965-67	19.6	12.9	25.4	7.6	35.2
of which:						
Burma	1951-53	12.3	39.1	17.5	10.4	20.7
	1964-66	11.0	27.0	23.0	8.0	31.2
India	1951-53	26.4	11.6	28.0	8.6	25.5
	1966-68	28.7	4.4	26.0	6.6	34.2
Indonesia	1951-53	19.2	33.8	15.9	5.7	25.5
	1965-67	14.7	26.6	13.6	10.4	34.6
Cambodia	1955-57	11.0	50.4	9.8	11.0	17.6
	1966-68	5.5	28.9	12.1	10.9	42.6
Laos	1955-57	19.7	35.8	9.7	11.0	23.6
	1966-68	30.2	29.4	7.3	7.2	25.9
Pakistan	1951-53	10.5	29.0	24.5	11.4	24.5
	1966-68	14.2	5.4	22.5	10.6	47.3
Thailand	1951-53	12.4	41.0	9.1	7.5	30.0
	1966-68	6.0	21.4	19.1	8.7	44.8
Philippines	1951-53	18.6	33.6	16.8	9.8	21.2
	1966-68	13.7	7.9	24.8	5.6	48.0
Sri Lanka	1951-53	45.6	20.0	9.2	9.1	16.1
	1966-68	46.0	11.9	15.8	8.2	18.1

<sup>1</sup> UN, *Economic Survey of Latin America 1966*, pp. 22-23.

<sup>2</sup> *Ibid.*, p. 102.

<sup>3</sup> *Ibid.*, pp. 22-23.

<sup>1</sup> *Economic Survey of Asia and the Far East 1963*, pp. 212-14; 1967, pp. 175-76; 1968, pp. 220-21; 1969, pp. 255-56.

<sup>2</sup> Including five more countries besides those enumerated.

The share of consumer goods is steadily declining in the imports of Central American countries, while the proportion of equipment and raw materials and semi-manufactures is increasing with the same consistency, attesting to the preservation of the traditional trend in the development of industry.

Except Venezuela and Chile, a tendency to reduce the dependence on imports of consumer goods is distinctly traced in countries of the Latin American continent.

With the beginning of industrialisation, noticeable changes have also occurred in the composition of imports of developing Asian countries. The import range (see table on page 207), by tradition, does not furnish any information about the changes in the imports of consumer durables. The imports of foodstuffs, however, are singled out into a separate column, providing a more distinct picture of the conditions in which the industrialisation of a number of developing countries of Southeast Asia is taking place. At the same time this column (if we exclude foodstuffs subject to industrial processing and the raw materials for the food industry) makes it possible to bring out more fully the changes in the imports of goods directly linked with the industrialisation process (again excluding the development of the food industry).

Without foodstuffs, the proportion between different types of imported manufactured goods and materials for industrial use will be essentially different in a number of Southeast Asian countries. This is especially characteristic of countries with a high share of food in their imports. For example, in Pakistan and India the share of investment goods in imports, excluding food, reached on the average 53-57 per cent in the mid-1960s, although producer goods industries are developed here more than in other countries of the continent. This reveals, on the one hand, the continued concentration of effort on industrialisation and, on the other, the inadequate attention paid to the development of agriculture. The share of investment goods in the imports of Sri Lanka, if we exclude foodstuffs, rises almost 1.8 times (from 18.0 to 32.3 per cent). The share of this group of goods in the Philippines, excluding food, increases up to 54 per cent. It goes without saying that the legitimacy of such calculations is disputable to a certain extent because part of the equipment purchased abroad is designated for the develop-

ment of the food industry, the raw materials for which are listed in the column "food" which we excluded. But these figures give a general idea of the proportion between the imported manufactured goods which meet the final and the intermediate demand and their use.

On the other hand, the combining of all types of food, irrespective of whether they are designated for further processing or satisfying the final demand, makes it difficult to bring out the real degree of dependence of the growing industry of Southeast Asian countries on the imports of materials and semi-manufactures. This partly explains the relatively small share of goods combined in the column "raw materials and semi-manufactures" in the imports of countries of this region. Such a grouping results in a distortion of the actual share of raw materials and semi-manufactures in total imports which is quite considerable because the food industry today is one of the major sectors of the industry being built up here.<sup>1</sup> Thus, in Sri Lanka where the food industry produces from one-third to two-fifths of the final industrial product, the imports of raw materials for this sector, according to 1967 data, amounted to about one-fifth of all the imported raw materials. Moreover, it would also be necessary to take into consideration the imports of semi-manufactures for this industry which amounted to not less than one-eighth of their total volume.<sup>2</sup> From this it is clear that the dependence of each and all Southeast Asian states on the imports of raw materials and semi-manufactures is much higher than shown in the table given earlier.

At the same time data of this table indicate that in India and Pakistan, in contrast to other countries of this region, alongside the intensive ousting of imports of manufactured consumer goods a trend has emerged to increase their self-sufficiency as regards industrial raw material and semi-manufactures, although the decrease in the share of these materials in imports reflects above all foreign exchange and financial difficulties.

Lastly, of definite interest is also the fact that the general increase of the proportion of investment goods in the im-

<sup>1</sup> *Economic Survey of Asia and the Far East*; 1967, p. 114.

<sup>2</sup> *Ibid.*; Central Bank of Ceylon. *Annual Report of the Monetary Board to the Minister of Finance for the Year 1967*. Colombo, 1968, pp. 46, 51, 160.

ports of a number of Southeast Asian countries is taking place with a certain reduction in the share of raw materials and semi-manufactures designated for the production of such goods. Besides foreign exchange and financial difficulties and a partial improvement of self-sufficiency as regards the respective goods of the intermediate demand, this also is a reflection of certain disproportions in the pattern of the newly built industry.

The imports of developing African countries present a somewhat different picture.

Designation of Imports to Developing African Countries<sup>1</sup>  
(per cent)

Year	Consumer goods			Raw materials and semi-manufactures	Fuel	Machinery and equipment	Others
	foodstuffs, beverages and tobacco	durables	others				
1960	18	7	16	18	7	30	2
1964	20	6	15	20	7	31	1
1966 <sup>2</sup>	15	5	13	18	2	44	3

As was to be expected, the developing African states, owing to the lower level of development of the manufacturing industry, noticeably exceeded the Southeast Asian countries for the share of consumer goods in their imports at the end of the 1960s. But the proportion of intermediate goods, on the contrary, was lower. The share of machinery and equipment in African imports was correspondingly smaller; moreover, a considerable part of it was designated for the extractive industry operated by foreign concessions which contributed about half of the entire industrial output. As for the share of consumer and intermediate goods in imports young African states differed even more substantially from Latin American countries. But a comparison of data on the imports of developing African and Asian countries at the

<sup>1</sup> ECA Ninth Session. *Economic Conditions in Africa in Recent Years*, p. 160 (E/CN. 141, 435).

<sup>2</sup> Only imports from member-countries of the OECD which account for about seven-tenths of all imports are included.

beginning of the 1950s shows that there was a lesser difference between them in many respects, attesting to a certain similarity of the industrial patterns which had been created in the colonial period in the African and Asian continents.

However, the evening out of average data on the imports to Asian and African countries, when compared by periods coinciding approximately with the gaining of state sovereignty, did not remove certain differences in the composition of imports of individual Asian and African countries. This is largely linked with the size of the population which predetermines the size of the home market. Other conditions being equal, the smaller the population and consequently the size of the home market, the bigger the part foreign trade plays in a country's economy. Thus, in the early 1960s India exported goods worth 3 dollars per capita. The comparable figure for Africa was 22 dollars.<sup>1</sup> The ultimate result is a considerably lower level of self-sufficiency of African countries as regards local manufactured goods. In India, at the time African countries gained political independence, the output of the local manufacturing industry (without the crafts) was 4-5 times greater than the imports of goods in this group. In Africa, however, the ratio was the reverse: local production of manufactured goods was only half or one-third the figure for imports.<sup>2</sup>

Paradoxically as it may seem at first glance, Asian, African and Latin American countries, launching industrialisation designed to eliminate the agrarian-raw material nature of their economy, had to import a considerable part of the foodstuffs and a substantial share of the raw materials needed for industry. Of course, their greater dependence on the world capitalist market is of a fundamentally different nature than in the epoch of colonialism. Today it is dictated not so much by the interests of the foreign monopolies as by the needs of economic progress of the developing countries themselves. An increase of imports of industrial raw materials and semi-manufactures by developing countries is a natural phenomenon because industrialisation cannot be confined to developing only the industries for which a country has its own raw materials. Industrialisation processes in fact represent a restructuring of the entire national economy. That is

<sup>1</sup> UN. *Industrial Growth in Africa*, New York, 1963, p. 13.

<sup>2</sup> Ibid., p. 14.

why it is practically impossible to avoid some disproportion in the course of this process.

The feasibility and expediency of building new industries, just as the scale of industrial output from the viewpoint of its assortment, are determined in each country by a whole complex of various factors, above all by the available economic potential. As it grows and the capacity of the local market is expanded, and the skill of the workers and the general organisation of labour rise, production ties within the given industrial complex are established and consolidated and the national industry advances to the level of world standards and adapts itself to the demands of the world market, the impediments to industrial progress determined by the lack of an adequate raw material basis within the country are gradually removed. But so far, apparently, it is too early to speak of the attainment even by the most developed of these countries of a stage where the provision of raw material resources is no longer of essential significance for industrialisation.

Ultimately, the burden imposed on the economy of developing countries by the need to import equipment and a substantial part of the primary materials for the operating industry, to no little extent is determined by their unequal position in the system of the international capitalist division of labour and also by disproportions in their national economic pattern. As demonstrated earlier, young states run up against the limited possibilities of expanding their exports and unfavourable trends in the relationship of export-import prices. At the same time the possibilities of importing the equipment and materials needed for industrialisation are seriously restricted by the necessary purchases of the lacking food in the world market. It is clear that comprehensive solutions are needed for eliminating these difficulties.

## CHAPTER VI

### ECONOMIC CO-OPERATION WITH SOCIALIST STATES AS A FACTOR OF INDUSTRIALISATION OF DEVELOPING COUNTRIES

#### 1. EMERGENCE OF A NEW TYPE OF INTERNATIONAL ECONOMIC RELATIONS

Industrialisation of Asian, African and Latin American countries largely depends on the development and reorganisation of international economic relations. This predetermines the paramount significance of the struggle to end the unequal status of these countries in the world capitalist economy. The logic of this struggle convinces the countries which have embarked on the path of national regeneration of the need for close co-operation with the world socialist system.

The profound interest shown by developing countries in such co-operation is determined above all by the huge economic potential of the world socialist system. In the early 1970s, member-countries of the Council for Mutual Economic Assistance, with about 10 per cent of the world population, produced 25 per cent of the world national income.

As an economic system socialism has demonstrated its decisive superiority over capitalism for the rates of production growth. Between 1950 and 1971 industrial output of CMEA countries increased about 7 times, while in developed capitalist states it rose slightly more than 2.8 times. Development of the economy in socialist countries is of a strikingly pronounced industrial nature. In the last 20 years their share in world industrial output rose from 18 to 32 per cent. Productive capacity has swiftly been expanded in the existing industry, and many new highly sophisticated lines of production have been built. At present the community of CMEA countries has turned into one of the most powerful industrial zones in the world.

But that is not the only point. A new type of international economic relations is being created and improved in the

world socialist economic system. CMEA countries are arranging their reciprocal economic ties in accordance with the demands of socialist internationalism, on the basis of respect for the state sovereignty, non-interference in domestic affairs, full equality, mutual benefit and comradely mutual assistance. It is pointed out in the Comprehensive Programme for the Further Extension and Improvement of Co-operation and the Development of Socialist Economic Integration by the CMEA Member-Countries, unanimously adopted by all the participating states in July 1971, that "historical experience has fully confirmed the viability of these Marxist-Leninist principles of interstate relations of a new type".<sup>1</sup>

Of great international significance is the experience in building up a modern highly developed and diversified economy, and carrying out socio-economic changes, accumulated in the USSR and other socialist states. It provides a reliable compass for all countries which strive to attain socio-economic progress in brief historical periods. This experience includes the methods of socialist industrialisation and the new principles of economic relations between states which not only correspond to the conditions of the world socialist system but also help to create a solid basis for broad and fruitful international co-operation.

The desire of developing countries to end their economic backwardness, to achieve social progress and economic independence from imperialism is fully and invariably supported by the USSR and other socialist states. In so doing they proceed from the community of the vital interests of socialism and the national liberation movement, from understanding the tremendous historically progressive significance of the struggle waged by the peoples of developing countries for the advance of their national economy and deliverance from neo-colonialist exploitation. This community of interests provides a reliable basis for co-operation between socialist states and developing countries.

The history of international economic relations irrefutably shows that it is the constant and invariable policy of the Soviet Union and other socialist countries to support the peo-

<sup>1</sup> *Comprehensive Programme for the Further Extension and Improvement of Co-operation and the Development of Socialist Economic Integration by the CMEA Member-Countries*, CMEA Secretariat, Moscow, 1971, p. 15.

ples of the former colonies and dependent countries. In the very first months of its existence the Soviet Government solemnly proclaimed that its foreign policy will be based "on a complete break with the barbarous policy of bourgeois civilisation, which has built the prosperity of the exploiters belonging to a few chosen nations on the enslavement of hundreds of millions of working people in Asia, in the colonies in general, and in small countries".<sup>1</sup> Accordingly, the Soviet Government declared null and void the unequal treaties and agreements which had been concluded by tsarist Russia. Simultaneously it annulled all the one-sided economic privileges of tsarist Russia without exception as incompatible with the nature of the socialist social system.

Having thus paved the way for establishing truly equal and friendly relations, the young Soviet Republic concluded with neighbouring countries (Afghanistan, Iran, Mongolia, Turkey, and China) a number of agreements on trade, payments and transit shipments and began to render them assistance in developing their national economy. The foundations were thereby laid for a fundamentally new approach to economic relations between states, although in that period the scope of economic co-operation was very limited for a number of objective reasons.

The rapid expansion and deepening of economic co-operation between socialist and developing countries, which began in the mid-1950s, was closely linked with fundamental changes in the international situation resulting from the historic victories of socialism and the successes of the national liberation movement. By that time a world socialist economic system had arisen and the economic, scientific and technological potential of the Soviet Union and other countries of the socialist community had grown at a swift pace. With the collapse of imperialism's colonial system and the gaining and consolidation of national statehood by Afro-Asian and Latin American countries, they have been increasingly striving to weaken their dependence on imperialism and to draw on the support of socialist countries in accomplishing tasks of socio-economic and cultural development.

The present scale of economic co-operation is demonstrated by the diversity of its forms and the steady increase in

<sup>1</sup> V. I. Lenin, *Collected Works*, Vol. 26, p. 424.

the number of developing countries which avail themselves of the advantages of this co-operation. In the early 1950s only Afghanistan, Iran and Turkey were among the regular trading partners of the USSR. In 1960, 23 developing countries had trade agreements with the Soviet Union and 52 in 1970. The economic relations of developing countries with other socialist states, too, have been greatly extended, above all with members of the Council for Mutual Economic Assistance. In 1970 Rumania, for example, maintained trade relations with 17 Third World countries, Bulgaria with 22, the German Democratic Republic with 27, Hungary with 29, Czechoslovakia with 53 and Poland with 66 states of this group.<sup>1</sup> The foreign trade between CMEA countries and developing states reached 5,000 million rubles in 1970 as compared with 900 million rubles in 1955.

Under the concluded agreements, about 2,800 projects had been or were being built at the beginning of 1972 in developing countries with the economic and technical co-operation of CMEA countries; of these more than half had already been commissioned. They include hundreds of industrial and other enterprises, new hydroengineering installations and irrigation systems, railways and highways, ports and airfields; a large number of oil, gas, coal, iron ore and other mineral deposits were prospected. About 370 projects were built and 420 were under construction with Soviet assistance.

In a number of developing countries these projects make up the core of their modern economy and are an essential contribution to extended reproduction on an independent national basis. The concluded agreements also provide for the granting of long-term credits to a total of about 8,000 million rubles by CMEA countries, including more than 5,000 million rubles by the Soviet Union.

The accelerated growth of external economic relations between socialist states and developing countries is in line with the progressive tendencies of contemporary development of the world productive forces. These tendencies stem above all from the quantitative and qualitative changes in social production and the international division of labour, the spread of the scientific and technological revolution, and the competition and struggle of the two world systems. Their

<sup>1</sup> *Trade Relations Among Countries Having Different Economic and Social Systems* (Doc. TD/112/Suppl. I), pp. 5-11.

action determines the considerable and steady increase in world trade and the greater influence exerted by foreign economic ties on the shaping of national economies. In many countries and in the world as a whole foreign trade is expanding faster than national production. This points to the further possibilities of utilising the advantages of the international division of labour by extending specialisation and co-operation in production between individual countries.

The use of these progressive tendencies of the world economy is much facilitated by the nature of economic relations between socialist states and developing countries. The external economic policy of socialist states is dictated by the very nature of the socialist system. Characteristic of relations between socialist states and Asian, African and Latin American countries is respect for sovereignty and non-interference in domestic affairs, observance of equality and mutual benefit and disinterested support of the national liberation movement. Adherence to these principles is recorded in all major state documents which determine the political line of socialist countries in international affairs. The facts show that their undeviating observance permeates all co-operation with former colonies and semi-colonies.

The force and vitality of these principles predetermines their unity and organic interconnection. Developing economic ties with Afro-Asian and Latin American countries, socialist states, in contrast to the imperialist powers, do not seek any selfish ends or privileges which would infringe the interests and national dignity of the Asian, African and Latin American peoples.

Observance of the principle of mutual benefit is an inalienable component part of the economic relations of socialist states with developing countries. It goes without saying that the mutual benefits of both sides are not reduced only to receiving an immediate economic effect. That is why consideration for the economic interests of the co-operating partners ensures a stable growth of economic ties between these two groups of countries and the rendering of effective assistance in solving basic economic problems of developing countries.

Thanks to this fundamental approach co-operation actively promotes the laying of the foundations under modern production, acceleration of the pace of economic advance by developing countries, the strengthening of their positions in

the struggle against neo-colonialism, the achievement of economic independence and improvement of the people's living conditions. It makes it easier for them to utilise more fully and rationally their own resources, extends the possibilities of obtaining modern capital equipment, technological know-how and financial resources on advantageous terms which do not infringe their sovereign rights and national dignity. At the same time co-operation with developing countries is of definite benefit to the national economy of socialist countries because it helps raise the efficiency of their participation in the international division of labour, expand economically advantageous exports and improve the supply of the needed raw materials and finished goods.

The wide use of bilateral inter-governmental agreements is an important feature of economic co-operation between developing countries and socialist states. They encompass ever more fully different sides of this co-operation—foreign trade, economic, scientific and technical assistance, monetary and financial relations, and so on. In 1955, for example, the Soviet Union had inter-governmental economic and technical co-operation agreements only with Afghanistan and India. By 1960 such agreements had already been concluded with 14 developing countries, by 1969 with 39 and by mid-1972 with 44 countries of the Third World (19 Asian, 22 African and 3 Latin American). Other CMEA countries, too, pay great attention to the conclusion of bilateral inter-governmental agreements. Between 1969 and 1971 Poland, Czechoslovakia, Bulgaria, Hungary, the German Democratic Republic and Rumania signed more than 30 new economic and technical co-operation agreements with developing countries.<sup>1</sup> At the beginning of the 1970s about 60 developing countries had inter-governmental economic and technical co-operation agreements with European socialist countries.<sup>2</sup>

The swift increase in the number of developing countries which have inter-governmental trade and economic agreements with socialist states attests to the steady expansion of the geographical bounds of mutually advantageous co-opera-

<sup>1</sup> *Trade Relations Among Countries Having Different Economic and Social Systems* (Doc. TD/112/Suppl. I), pp. 23-24.

<sup>2</sup> See L. Z. Zevin, *Noviye tendensii v ekonomicheskem sotrudnichestve sotsialisticheskikh i razvivayushchikhsya stran* (New Trends in the Economic Co-operation of Socialist and Developing Countries), Moscow, 1970, p. 37.

tion. It also confirms the efficacy of inter-governmental agreements in relations between countries with a different level of development and a different socio-economic system.

The restructuring of the backward economic pattern inherited from the past and of the system of unequal world economic relations requires purposive effort on the part of governments of the developing countries. Without political decisions which take into account the existing conditions of development and shaping the new ones it is impossible to break out from the grip of backwardness and dependence on imperialism. Inter-governmental agreements with socialist states help developing countries to accomplish such tasks in the external economic sphere. Bilateral agreements also create favourable conditions for co-ordinating not only the current but also the long-term national development plans of every partner with other measures of reciprocal co-operation, thus raising the reliability and stability of co-operation and weakening or fully removing many obstacles which impede the reciprocal exchange of goods and services.

In substance these agreements are one of the most effective instruments for shaping a new type of the international division of labour. They not only lay a dependable legal foundation for the development of trade and economic ties between the two groups of countries but also make it possible to do so in a comprehensive way, proceeding from the general state interests of both sides. With the lengthening of the term of operation of inter-governmental agreements their beneficial influence on the economy of both developing countries and socialist states rises.

## 2. MAIN TRENDS OF ECONOMIC CO-OPERATION

Economic co-operation of socialist and developing countries, ensuring the mutual interests of the parties, covers all the main sides of their external economic relations. Its important role is determined above all by the fact that it is designed to facilitate the solution of the most intricate economic tasks facing developing countries. Among them are the development of the productive forces as the basis of the national economy, the creation of a rational sectoral pattern and the acceleration of economic growth rates, attainment of economic independence and rise in the living standard of

the people. At the same time economic relations are called upon to ease the solution of a number of problems of national economic development in socialist countries, ensuring them a saving in inputs of social labour. This is achieved through the exchange of goods and services produced under different national conditions of production more favourable for the exported and less favourable for the imported goods and services.

An important part in promoting mutually advantageous co-operation is played by direct assistance of socialist states in building up a modern economy in developing countries. Socialist states furnish assistance above all in the construction of key projects. Thus, at the beginning of 1972 almost three-fifths of Soviet assistance to Afro-Asian and Latin American countries was designated for the building up of their national industry (and including the electric power industry, almost three-fourths); 32 per cent were given to the iron and steel industry and about 6 per cent each to the non-ferrous metals, engineering and metalworking and also oil refining and chemical industries. At the beginning of 1972 industrial enterprises already built or under construction with Soviet assistance were designed for the annual production of 11.8 million tons of pig iron, 13 million tons of steel and 12.3 million tons of rolled stock, the refining of 11.6 million tons of oil and also for the manufacture of heavy electrical equipment with a total capacity of 3.2 million kilowatts, 1,500 metal-cutting machine tools, 150,000 tons of metallurgical, mining, forging and stamping, and hoisting and conveying equipment, 320,000 tons of mineral fertilisers, 1,300,000 tons of cement, and so on.

In addition, socialist states are helping developing countries to build more than 500 enterprises of the light and food industries, prospect for minerals, develop the power industry, the transport and communications system, reorganise agriculture, train national personnel, and so on. In choosing the main trends of economic and technical assistance to developing countries, socialist states consider the difference in the development levels already achieved and the concrete needs of each country. In the larger and more developed Third World states, where the conditions are ripe, the assistance of socialist states is usually concentrated on projects of heavy industry which makes up the backbone of the entire national economy. In smaller and less developed

countries it is routed above all into agriculture and light industry.

Socialist states are paying great attention to the building up of a modern infrastructure in Afro-Asian and Latin American countries because the efficiency of production in industry and agriculture largely hinges on it. About one-third of all the projects being built with the help of socialist states are enterprises of the productive infrastructure—the power industry, transport and communications. At the beginning of 1972 about 25 per cent of all Soviet assistance was channelled into the productive infrastructure, including 16 per cent for the building up of a modern power industry. The installed capacity at electric power stations built with Soviet assistance exceeds 6 million kw. In other words, socialist states render assistance in the industrialisation of developing countries both in the narrow and the broad sense of the word. The concentration of assistance by socialist states on key sectors of the economy in Afro-Asian and Latin American countries raises the general efficiency of this co-operation. This approach not only directly increases the production potential but also furnishes the necessary stimuli for the development of a number of related and allied sectors, which facilitates the general acceleration of economic growth and ensures greater balance of the economy.

In a number of cases the assistance of socialist states is of substantial support in solving not only specific economic questions but also big nationwide economic problems. Among projects of this kind is the building, with Soviet assistance, of the Aswan complex in the Arab Republic of Egypt, of iron and steel plants and engineering works in India, the hydropower complex on the Euphrates River in Syria, and others. The sectoral and technological structure of assistance rendered by socialist states demonstrates their desire to help build up integrated national economic complexes in developing countries.

In addition to the above projects of nationwide significance, socialist states co-operate in the development of complexes of the oil industry in the Arab Republic of Egypt and Syria (geological prospecting, organisation of the extraction and processing of oil), steel and metalworking plants in India and the Arab Republic of Egypt (beginning with prospecting and mining of ore and fuel through the construction of enterprises which produce various types of machinery and

equipment and other finished goods), the gas and chemical industry in Afghanistan (from prospecting for gas through its use for the production of fertilisers), etc.

The importance of socialist assistance in industrialisation is not confined to the building of industrial and other modern national economic projects. In the course of construction socialist states share with developing countries their scientific and technological achievements and production know-how. In addition to modern machinery and equipment, socialist states hand over practically free of charge all the technical documentation relating to the new enterprises. While private capitalist companies and monopolies, which act as the main vehicle in the transfer of new technology from imperialist states, make profit on the sale of licences and patents, the fees charged by socialist states for the transferred technical documentation and assistance in designing and surveying are usually limited to compensation for the actual costs. Moreover, socialist states, in contrast to capitalist companies, in providing new technology set no restrictive terms to the partners as regards the nature and the scale of its use.

The training of national personnel is of great importance for the utilisation of the achievements of scientific and technological progress. Foreign monopolies, when building modern industrial enterprises in developing countries, try to keep their production secrets and, as a rule, restrict the appointment of local personnel to leading engineering and managerial posts. The socialist states, on the contrary, render every assistance in training national personnel so as to hand over to them the servicing and management of the newly built enterprises in the shortest time possible.

To help solve the personnel problems socialist states take an active part in extending and modernising the vocational training system in developing countries. At the beginning of 1972 the Soviet Union alone was helping to set up or already set up 20 higher educational establishments and also more than 110 specialised secondary schools and vocational centres which train middle-level personnel and skilled workers. They graduate tens of thousands of workers and specialists of the needed skills and vocations annually.

CMEA countries are doing much work in training national personnel in the course of industrial construction and implementation of other projects of economic and technical co-operation. Extensive use is made of the latest methods of

mass training. By the beginning of the 1970s about 200,000 skilled workers and other middle-level personnel had been trained with the assistance of European socialist countries. To this should be added more than 20,000 citizens of developing countries who had received training in higher and specialised secondary educational establishments of European socialist states and the large group of specialists and workers who undergo practical training or advance their skill at factories and in designing and research institutes of socialist countries.

The diverse forms and wide scale of disinterested assistance by socialist states in training national personnel help developing countries to assimilate scientific and technological achievements and furnish prerequisites for the swifter creation of their own scientific and technological potential.

In rendering economic, scientific and technical assistance, socialist states concentrate on expanding and consolidating the public sector of the economy, because a national approach to the solution of major socio-economic problems is the decisive requisite for developing a modern economy in developing countries and strengthening their national independence. Such an approach is especially required because of the pressing need to attain an optimal balance in solving problems of technological and social progress.

The narrow selfish aims of private enterprise more often than not run counter to the interests of the nation. Only proceeding from the general interests of the country is it possible to ensure the fullest mobilisation and rational use of all the available resources of economic growth. It is clear that the accomplishment of this task demands the utmost expansion of the economic positions of the state. The development of a public sector meets to the fullest extent the requirements of national regeneration of the newly free countries.

Economic co-operation of socialist and developing countries is usually of a comprehensive nature. Its indispensable parts are the economic, scientific and technical assistance (including training of national personnel), the provision of financial resources and the expansion of foreign trade. The governmental level of relations between the co-operating partners ensures the necessary co-ordination between different forms of co-operation, raising the general efficiency of co-operation and enhancing its favourable impact on the

economy of the co-operating countries. Moreover, prerequisites are created for the further development of mutually advantageous economic and trade ties.

Considering the scarcity of financial resources in most developing countries and their difficulties in getting foreign exchange, socialist states furnish the overwhelming part of economic and technical assistance to these countries on conditions of long-term credit. These credits are given to pay for technical assistance in pre-investment and construction work. They are used for the purchase of machinery and equipment, covering the costs of the assembly and tune-up of plant and training the required national personnel.

Credits of socialist countries help young independent states to accelerate the accumulation of capital and facilitate the building of important industrial projects. For many developing countries socialist credits play an essential part in national economic development. In Afghanistan Soviet credits have financed more than one-third of all the capital investments. They accounted for two-thirds of the funds received from foreign sources for carrying out the First Five-Year Plan. During the Second Five-Year Plan they made up about half of the foreign assistance. Soviet credits amounted to 12 per cent of the industrial capital investments made by the Government of India between 1961 and 1966. Co-operation with socialist countries enabled the Arab Republic of Egypt to implement 40 per cent of the industrial projects under the Second Five-Year Plan. But this by far does not exhaust the importance of credits from socialist states for developing countries. Their important consequence is the abolition of the monopoly enjoyed by the capitalist states in the international credit market, as a result of which the positions of young states in their financial and economic relations with capitalism have been substantially strengthened.

The terms of socialist credits as such also are important in alleviating the foreign exchange and financial difficulties of developing countries and in consolidating their positions in the struggle against international finance capital. Socialist states usually provide credits for 8-12 years (and for a longer period) at an annual interest of 2-3 per cent.

According to G. Prokhorov, a Soviet economist, in the case of a 12-year credit the sum of interest paid by developing countries to socialist states is from 60 to 67 per cent lower than corresponding payments to international financial cen-

tres or private corporations of capitalist countries.<sup>1</sup> As compared with government credits of developed capitalist countries loans given by socialist countries are more advantageous not only for their terms. Soviet credits contain no overt or covert additional demands on the borrowers which would raise the cost of credit or infringe their political sovereignty and economic independence.

The saving of money resulting from the low interest rate on credits of socialist states is supplemented by the favourable conditions of their repayment. Calculations show that given the normal organisation of production at enterprises the building of which is partially financed by credits of socialist states, such credits, as a rule, can be repaid by the incomes of these enterprises themselves in the periods envisaged in the agreements. Repayment of the principal and interest is made chiefly with traditional export goods or the products of the enterprises built with the help of the credits. This procedure of repayment does not impose any additional burden on the balance of payments of the countries concerned. Moreover, it extends a stable market for the sale of goods and thereby eases their monetary and financial position. Amia Bagti, an Indian economist, comparing the terms of credits of socialist and developed capitalist countries, points out that the effective interest rate (after considering differences in the nominal interest rate and the grace periods) on credits of socialist countries is lower, repayment is made in rupees or goods which in many cases are the products of the projects for the construction of which the loans were given; moreover, wide possibilities are usually envisaged for training Indians to service and manage the enterprises.<sup>2</sup>

Thus, credits of socialist states in effect perform a dual function. On the one hand, they help extend the flow of machinery and equipment and other goods and services to developing countries needed for their industrialisation and the general restructuring of the backward economies. On the other hand, the same credits enable the developing countries to increase their traditional exports and promote the creation of new export resources by building up a modern national

<sup>1</sup> G. M. Prokhorov, *Uneshneekonomicheskiye svyazi i ekonomichesky rost sotsialisticheskikh stran* (Foreign Economic Ties and Economic Growth of Socialist Countries), Moscow, 1972, p. 177.

<sup>2</sup> *Economic and Political Weekly*, Annual Number 1970, p. 231.

industry. Socialist states, in turn, benefit by increasing the supply of goods which they need for their economic growth and satisfying the swiftly growing needs of the population.

The existing mechanism of economic and technical co-operation between socialist and developing countries fully meets the recommendations of UNCTAD and other United Nations agencies concerning economic assistance to less developed countries. The assistance supplements the efforts of developing countries themselves, facilitates the mobilisation of available resources, ensures the consolidation of their national economic potential and at the same time promotes the further deepening and expansion of mutually beneficial economic co-operation between the two groups of countries.

These facts and figures show what a big contribution the world socialist system is making to the industrialisation of developing countries. But the impact of their assistance on the course and rates of industrialisation is not confined to direct material support. The active assistance of socialist states in laying the foundations of an independent national economy, assistance which rests on the principle of equality and mutual benefit of the participating sides, in fact, is the hub around which a new type of the international division of labour is being formed. Promoting the industrial and general economic progress of developing countries, this co-operation stimulates mutually beneficial foreign trade.

A substantial and frequently prevailing part of the industrial and other equipment exported by socialist states to young national countries consists of plant for complete enterprises. While in 1955, for example, when economic and technical co-operation with developing countries was only beginning to gain momentum, the share of complete plant in the exports of equipment from the Soviet Union amounted to about 22 per cent, in the 1960s and early 1970s it reached 55-60 per cent. The big proportion of complete plant, which is usually delivered on conditions of long-term credit and is inseparably linked with the transfer of new technology and the needed production know-how, reveals the friendly nature of the support given by the socialist world to developing countries.

The positive influence exerted by economic and technical co-operation on the internal economic pattern and the position of the developing countries in the international division of labour is displayed with especial clarity where it has at-

tained the biggest scope. For example, in India many types of the basic equipment for the swiftly growing national iron and steel, coal and electric power industries are produced by their own plants which have been built with the economic and technical co-operation of the USSR. The country's growing economic and technological potential resulting from this assistance creates the necessary basis for increasing India's external economic ties in general and the further expansion of mutually beneficial economic co-operation with socialist states in particular.

The change in the volume and composition of foreign trade is an important indicator of the growth and main trends of economic co-operation between socialist and developing countries.

Trade of CMEA Countries with Developing States<sup>1</sup>  
(million rubles)

	1955	1960	1965	1970
All CMEA countries				
Total	902	1,658	3,169	5,017
Exports	447	772	1,754	2,979
Imports	455	886	1,415	2,038
of which				
Soviet Union				
Total	304	785	1,744	2,981
Exports	128	304	1,010	1,835
Imports	176	481	734	1,146

The new trend in international trade, associated with the emergence and strengthening of economic co-operation between socialist and developing countries, has become the most dynamic section in all world commerce. The foreign trade of young states with CMEA countries has been growing at particularly high rates. Between 1955 and 1970 for-

<sup>1</sup> Compiled from: L. Z. Zevin, op. cit., p. 28; *Statistichesky yezhegodnik stran-chlenov Soveta Ekonomiceskoi Uzaimopomoshchi*, 1971 (Statistical Yearbook of Member-Countries of the Council for Mutual Economic Assistance), p. 342.

cign trade between capitalist states increased by 9.9 per cent annually on the average; between them and developing countries by 6.2 per cent; and between developing countries themselves by 4.5 per cent.<sup>1</sup> During the same period trade of Afro-Asian and Latin American countries with socialist member-states of CMEA, as it follows from the table given above, annually rose by 12.1 per cent on the average, including 16.4 per cent with the Soviet Union. Moreover, it is indicative that between 1968 and 1970 the growth rates of trade between CMEA countries and the group of developing states noticeably increased and were above the average level for the period (13.2 per cent as against 12.1 per cent for 15 years). These data graphically demonstrate the full insolvency of allegations made by opponents of strengthening external economic ties with socialist states about the inevitable sharp slowing down of growth rates. Despite their predictions, the swift expansion in reciprocal goods exchange is not limited to the initial period when the absolute scale of exports and imports was small.

Progress in foreign trade between developing countries and socialist states is promoted by the extension and improvement of the mechanism of long-term inter-governmental trade and payment agreements. In the second half of the 1960s more than 50 per cent of their reciprocal commerce was already conducted on the basis of such agreements. The transition to long-term agreements ensures the young national states the sale of contingents of goods agreed upon in advance and also enables them to estimate their purchases for several years ahead in accordance with their economic development plans. Imparting stability to foreign trade, these agreements also have another advantage, namely, they help to co-ordinate different forms of economic co-operation more fully. It is these circumstances that explain the swiftest growth of trade with developing countries which arrange their commerce with socialist states on the basis of long-term agreements.

The faster growth rates of trade between socialist and developing countries have considerably raised its role in the total trade of both groups of countries. In 1970 developing

<sup>1</sup> Calculated according to data of UNCTAD. *Handbook of International Trade and Development Statistics*, 1972, New York, 1972, pp. 46-48.

countries accounted for 9.1 per cent of all foreign trade of CMEA countries as against 6.2 per cent in 1955, in other words, it increased almost by half during these 15 years. Particularly substantial has been the rise of their share in the foreign commerce of the Soviet Union where it reached 13.5 per cent as compared with 5.2 per cent in 1955. At the same time the share of CMEA countries in the foreign trade of developing states rose from 1.9 to 5.4 per cent or almost 2.8 times; in the case of the Soviet Union, from 0.7 to 3.2 per cent or 4.6 times.<sup>1</sup>

CMEA countries hold the most important place in the foreign commerce of Afghanistan, the Arab Republic of Egypt, India, Iraq, Iran and Syria which also maintain other forms of mutually advantageous co-operation with the socialist world. In 1970 the USSR alone accounted for 8 per cent of the total foreign trade of Syria; 10 per cent, of India, Iraq and Iran; 24 per cent, of the Arab Republic of Egypt; and 41 per cent, of Afghanistan.<sup>2</sup>

Trade of developing countries with CMEA countries is arranged on a balanced basis. This is envisaged in particular by the inter-governmental agreements. The excess of exports of socialist countries over imports is linked above all to the economic assistance, on account of which part of the export deliveries is financed, and also to the financial and economic difficulties of individual developing countries. Taking into consideration these difficulties, socialist states try to apply in trade the most suitable forms of settlements for developing countries. In addition to payments in freely convertible currencies, they agree to settlements in national currencies or employ a clearing system, including a system that involves three or more parties. CMEA countries suggest that developing states should extend multilateral settlements in transferable roubles to protect economic relations from

<sup>1</sup> Calculated according to *Mirovoi sotsializm i razvivayushchiyesya strany (Ekonomicheskiye otnosheniya sotsialisticheskikh stran Evropy s razvivayushchimisya stranami)* [World Socialism and Developing Countries (Economic Relations of European Socialist Countries with Developing Countries)], Moscow, 1969, p. 156; *Statistichesky yezhegodnik stran-chlenov Soveta Ekonomicheskoi Uzaimopomoshchi*, 1971, pp. 341, 342.

<sup>2</sup> The foreign trade of Iran and Iraq in which the share of the USSR is calculated, in accordance with data of their customs statistics, does not include trade in oil.

the adverse consequences of the crisis of the world capitalist monetary system.

The composition of the commodity flows between the two groups of countries is also changing. This reflects both the shifts in the internal economic patterns of the co-operating sides and their readiness to consider the real possibilities and needs of the partners. In these conditions changes in the composition of trade between the two groups act as a factor which stimulates its general growth.

It is indicative that between 1955 and 1969 the share of machinery and equipment in exports by CMEA states to Afro-Asian and Latin American countries rose almost 1.9 times; in the case of Soviet exports, more than 10 times. On the other hand, the share of machinery and equipment in the exports of capitalist powers to this group of countries during the same period increased by 30 per cent only.

In 1970-71 the share of machinery and equipment in Soviet exports to the ARE reached on the average 45 per cent, Afghanistan 52 per cent, Iraq 57 per cent, India 59 per cent, Pakistan 66 per cent, Syria 76 per cent, Turkey 78 per cent and Iran 81 per cent.<sup>1</sup> The most dynamic item of opposite exports is represented by goods of the growing national industry, part of which consists of the output of enterprises built directly with the economic and technical assistance of the socialist states. According to underestimated UNCTAD data, the share of industrial goods (excluding non-ferrous metals) in the exports of Third World countries to CMEA states more than trebled between 1960 and 1969; in the case of the Soviet Union it increased 4.4 times. As a result it almost equalled the share held by these goods in the total exports of developing countries.<sup>2</sup>

These data speak of the sincere desire of the socialist community to help developing countries build up their national industry not only through economic and technical assistance but also by creating conditions for the sale of their industrial output in its markets. But UNCTAD data considerably underestimate the actual scale of the support rendered in this

<sup>1</sup> According to data of *Ucheshnaya torgovlyya SSSR za 1971 god. Statistichesky obzor* (Foreign Trade of the USSR in 1971. Statistical Survey), Moscow, 1972.

<sup>2</sup> Calculated from UNCTAD. *Handbook of International Trade and Development Statistics*, 1972, pp. 46-180, 193.

way. A more detailed and thorough examination of imports to the Soviet Union from Third World countries which fully conforms to the methodology of UNCTAD itself, brings out the fact that in 1969 the share of semi-manufactures and finished goods actually amounted to 27.3 per cent as against the 17.9 per cent calculated by the staff of this organisation. And the USSR accounts for more than half of all the imports of CMEA countries from the Third World.

The swift increase in the imports of semi-manufactures and finished goods is a result of the policy of socialist states, a policy based on the principle that the exports of manufactured goods help accelerate industrialisation and facilitate the ending of the unequal position of developing countries in the international division of labour. One of the manifestations of this policy is the granting to developing countries of unilateral preferences, specifically renunciation of customs duties on their imports. It is in place here to recall that developing countries enjoy the right of duty-free exports to the Soviet Union already since January 1, 1965; moreover, this right also extends to the entire group of raw materials. Socialist states accept, in payment for their credits, the products of enterprises built with their assistance, take into account possible imports of manufactured goods from developing countries in their plans and incorporate special provisions in long-term trade agreements on expanding the purchases of such goods by establishing definite quotas, and so on. Such provisions are contained, for example, in trade agreements of the Soviet Union with Bolivia, Brazil, India and Iran.

Imports by socialist states of manufactured goods from developing countries are expanded both by going over from the purchases of raw materials to semi-manufactures and finished goods from these materials and also as a result of including in the imports entirely new types of goods produced by the young national industry of the respective countries. Thus, between 1964 and 1970 the imports of raw cotton by the Soviet Union rose by 70 per cent, while the purchases of various textiles in developing countries increased by more than 130 per cent and the imports of fabrics and articles made from them grew almost 3.7 times faster than those of yarn. During the same period the USSR began to import rolled ferrous metals, tyres, electric cables, some types of machines and equipment, detergents, furniture, and so on.

thereby extending its co-operation in developing different industries. For some types of industrial goods exported by developing countries the socialist states are the biggest buyers. This lends special significance to the support they render to the respective national industries. In 1968, for example, the Soviet Union accounted for 85 per cent of the footwear, 91 per cent of detergents and 98 per cent of the knitted wares exported by Iran.

Nor must we ignore the favourable influence exerted on industrialisation of developing countries by the swiftly growing exports of their traditional raw materials to socialist states which, owing to the specialisation in the international division of labour inherited from the past, prevail in their exports. Thus, between 1960 and 1969 purchases of socialist states accounted for more than one-fifth of the general increase in exports of food and natural fibre by developing countries,<sup>1</sup> the sale of which in the world capitalist market encounters especial difficulties. Such purchases, increasing the export receipts of developing countries, create prerequisites for extending the imports of the goods they lack. In conditions of a stable excess of supply over demand, the appearance in the world market of new big buyers as represented by socialist states facilitates a certain stabilisation of prices of these commodities or in any case somewhat retards their drop. Exports to socialist states become especially noticeable in periods when developing countries are faced with particularly acute foreign exchange shortages. Such critical situations arise when the situation in the world capitalist market sharply grows worse and prices of agricultural commodities drop or when capitalist countries deliberately reduce their purchases and even boycott goods from developing countries. Socialist states have helped the Arab Republic of Egypt and Sudan to overcome foreign exchange difficulties connected with the sale of cotton and Ghana, with the marketing of cacao beans.

In a number of instances purchases of raw materials in developing countries by socialist countries have become the key factor in their decision to develop additional natural resources as part of their economic activity. A case in point

<sup>1</sup> *Review of International Trade and Development 1971*, Geneva, 1971, Annex table.

is the importation of substantial quantities of natural gas from Iran by the Soviet Union, gas which was simply burned by the International Oil Consortium in the past. The same may be said about the purchases of natural gas by the Soviet Union in Afghanistan, the deposits of which were discovered in the course of Soviet-Afghan friendly economic co-operation. It is clear that the possibilities of further expanding mutually beneficial trade on the basis of purchases of the raw materials of developing countries are by far not exhausted. They are particularly big as regards mineral raw materials but in principle this also applies to manufactured goods.

Imports from developing countries enable the Soviet Union and other countries of the socialist community fuller to satisfy their needs in raw materials for industry and goods for the population. In 1967-68 (on the average) developing countries supplied the Soviet Union with 100 per cent of the natural rubber, almost 100 per cent of the coffee and cacao beans, 98.2 per cent of the jute, 95.8 per cent of the cotton and about 40 per cent of all the wool it imported. Since the first four commodities are not produced in the USSR, naturally their imports from developing countries also indicate their share in consumption, while the wool received in 1969 amounted to 10.4 per cent and the cotton to about 13 per cent of their production in the USSR.<sup>2</sup>

In the consumption of other socialist countries the share of wool, cotton and hides and skins from developing countries is even higher. Goods exchange with developing countries is substantially improving the material balances of the USSR and other socialist countries in the case of commodities which are not produced at all or their output is insufficient for normal extended reproduction and satisfaction of the population's growing requirements.

On the other hand, sales of machinery and equipment by socialist countries in the markets of developing countries account for a substantial share of their total exports of these goods (in the case of the Soviet Union, 24 per cent in 1969-70).<sup>2</sup> This enables socialist countries somewhat to extend the volume of output and organise manufacture in bigger lots.

<sup>1</sup> *Uneshnaya torgovlya SSSR za 1970 god. Statistichesky obzor* (Foreign Trade of the USSR in 1970. Statistical Survey), p. 50; *Uneshnaya torgovlya* No. 8, 1971, pp. 51-53.

<sup>2</sup> *Uneshnaya torgovlya* No. 7, 1971, p. 54.

Alongside machinery and equipment, the USSR and other socialist countries supply developing states with large quantities of rolled ferrous metals, chemicals, and other manufactures.

For its nature, terms and socio-economic consequences, co-operation of developing countries with socialist states radically differs from their monetary and financial relations with developed capitalist states. This is also admitted in one of the UNCTAD documents prepared for its third session in Santiago. It points out that the economic assistance rendered by governments of East European socialist countries to developing countries, within the framework of co-operation agreements, is not financial assistance in the direct sense of this word. In substance it represents assistance in the physical form and as such cannot be mechanically compared with state financial assistance in its different aspects, not to speak of such financial flows as private loans, commercial credits and foreign investments.<sup>1</sup>

The basic distinctions of economic, scientific and technical assistance of socialist countries from aid of developed capitalist states invalidate purely quantitative comparisons. Therefore it would be wrong to place socialist countries in the same rank with the developed capitalist states. Ignoring these differences would be in the interest of developed capitalist states which attempt to shift onto the socialist countries part of their responsibility for the economic backwardness and monetary and financial difficulties of developing countries and split the unity of the forces of world socialism and the national liberation movement.

The trade and economic co-operation of socialist and developing countries, based on the principle of complete equality and mutual benefit of the parties, which is attained through the saving of social labour in the production of individual goods and raising, on this basis, of the general efficiency of their national economies, is improved and grows stronger. In the course of this co-operation the foundations are gradually laid for creating economic complexes which utilise, in mutual interests, an ever wider range of natural and productive resources of the co-operating partners. Trade

<sup>1</sup> See *Expansion of Trade and Economic Co-operation Between the Socialist Countries of Eastern Europe and the Developing Countries* (Doc. TD/126), February 8, 1972, p. 5.

and economic co-operation of socialist states with many developing countries is entering a stage where, as pointed out in the report of A. N. Kosygin, Chairman of the USSR Council of Ministers, to the 24th CPSU Congress, "we may already speak of firmly established mutually advantageous ties". This co-operation "is acquiring the nature of a stable division of labour, as opposed in the sphere of economic relations to the system of imperialist exploitation".<sup>1</sup>

<sup>1</sup> 24th Congress of the CPSU, p. 200.

## MINERAL RESOURCES AND INDUSTRIAL DEVELOPMENT

Mineral resources and the extractive industry have created the material backbone of the contemporary capitalist industrial economy, serving as the basis of all manufacturing industries.

Almost all highly developed industrial capitalist countries—the United States, Britain, France, Italy, Canada—have made an “industrial spurt” on the basis of their own mineral raw materials and only later on began widely to use foreign natural resources, primarily of the colonies. Only a few countries managed to industrialise without the extensive tapping of their national mineral wealth or when these resources were scarce. (This applies, for example, to Japan, Switzerland, the Netherlands, Denmark and New Zealand.) Most countries of this group based the initial stage of industrial development on their own, though modest, reserves of the main minerals. In the subsequent building up of a modern industry they utilised the advantages of the international division of labour and geographical location.

At a higher stage of capitalist development and at the level of manufacturing when the strongest impulses are received by the sectors in the “upper storeys” of the economy (electronics, instrument-making, organic chemistry, etc.) industry depends less and less on the national raw material base and exploits the advantages of the international division of labour. A highly developed capitalist country prefers to export machinery and equipment in exchange for less sophisticated manufactured goods and especially industrial raw materials and semi-manufactures. This notwithstanding, developed capitalist countries intensify prospecting for

minerals in their own territory to provide themselves with their own minerals, in particular, to have important stockpiles of strategic materials in the event of war or the aggravation of international tension when the usual economic ties between countries may be broken.

Since the end of the 19th century imperialist states having no or insufficient reserves of some industrial raw materials began a fierce struggle for rich resources of fuel and iron and non-ferrous metal ores. The export of foreign capital provided a direct impulse to create and expand the contemporary mining industry in developing countries. It was the first sector of the economy which to a certain extent reached the level of technological progress of its time, and in many countries was practically the only developed sector. Minerals (according to our calculations) are extracted on a considerable scale in some 50 developing countries. This group of mineral-exporting states is inhabited by more than 1,000 million people, i.e., 60 per cent of the entire population of the developing world. Minerals are the main export item in 30 developing countries and their economy is of a mono-product nature.

### I. MINERAL RESOURCES OF DEVELOPING COUNTRIES IN THE INTERNATIONAL CAPITALIST DIVISION OF LABOUR

Developing countries have embarked on the path of economic advance in the epoch of the rapid spread of the scientific and technological revolution when many notions of industrialisation methods are receding into the past. A question arises, is the selfsame path of industrialisation based on national mineral raw materials necessary today too? At least in half of the developing countries industrialisation at its initial stage includes the use of the available mineral wealth as sources of accumulating finances through exports and also as sources of industrial raw materials, i.e., the direct “material substance” of industrialisation.

Naturally, there are exceptions to the general rule. In some, though very rare, cases the manufacturing industry is being built in the absence of raw material resources by making use of the advantageous geographical location of the respective states at the junction of important trade lanes. A case in point is the Lebanon, Singapore or Hong Kong. But,

first, this is such rare a case, and, second, their industry, with very few exceptions, is limited to consumer goods factories.

As to the scientific and technological revolution, it undoubtedly affects the relative value of various minerals; as a result the possibilities of obtaining foreign exchange by exporting different minerals change. Different countries become favourite sons or stepsons of the scientific and technological revolution at different stages of its development. In the past, resources essential for building up the iron and steel industry were a prerequisite for industrialisation. Now the same part in speeding industrialisation can be played by oil and some non-ferrous metals as the objects of exports and accumulation of foreign exchange.

Be that as it may, the scientific and technological revolution has not yet reached a level when it is possible to start industrialisation in a less developed country without tapping, even in part, a country's own mineral and agricultural resources as the source of accumulation in the value and material forms. Always and everywhere, while drawing up current and long-term plans of development and industrialisation, the national mineral and agricultural resources, even with primitively elaborated material balances, are taken into account. Before starting to formulate some plans and determine the aims of industrialisation, a state first considers and evaluates the national natural resources and potentialities. The range of mineral resources may even determine the production specialisation of the future industrial economy.

The scientific and technological revolution, which spread after the Second World War, on the whole facilitates the building up of the mineral extractive and processing industry as one of the main sectors of the world economy. The rapid expansion of production, the rise and the swift progress of new industries, the leap-like expansion of the range of goods for production purposes and personal consumption, the higher quality standards—all this presents a growing demand for non-metallic minerals and ores and draws into production new minerals. The extraction of most minerals is steadily growing.

The table on p. 239 shows that in the last 20 years the swiftest pace was registered in the production of oil and natural gas, and also of aluminium and copper, with more modest growth rates in iron ore and most non-ferrous metals and steel. Typical trends of the scientific and technological

Extraction of Major Mineral Raw Materials and the Production of Metals in Non-Socialist Countries<sup>1</sup>

Mineral or metal	Unit of measurement	1918	1971	Increase, 1971 in per cent of 1948
Oil	million tons	384.0	1,996	520
Natural gas	'000 million cu m	134.0	893	666
Coal	million tons	1,140.0	1,080	95
Manganese ore	" "	3.4 <sup>3</sup>	10.5	309
Chromites <sup>2</sup>	" "	1.7 <sup>3</sup>	3.9	229
Steel	" "	130.0	391	300
Primary aluminium	" "	1.1	8.5	773
Primary copper	" "	2.1	5.1	243
Zink	" "	1.5	3.7	247
Refined lead	" "	1.2	3.1	258
Tin concentrates	thousand tons	155.0	187	121
Iron ore	million tons	196 <sup>3</sup>	462	236

revolution are reflected in the uneven increase of the production of various mineral raw materials.

In recent decades radical changes have taken place in the fuel and power balance in favour of liquid and gas fuel at the expense of hard fuel, above all coal and lignites. At the beginning of the 1960s the consumption of oil outstripped that of coal and, together with natural gas, these progressive energy sources firmly took first place (66.3 per cent in 1966). In the United States these changes occurred already at the beginning of the 1950s. Gas is not only a highly productive and cheap energy source, but also an important raw material for organic chemistry. It is not by chance that in the United States it is beginning to oust not only coal, but also oil.

Comparatively high growth rates of steel output prove that it remains the main building material. But the quality

<sup>1</sup> Compiled and calculated on the basis of data in *Mir kapitalizma* (The Capitalist World), Moscow, 1965, pp. 25-26; "Rynki syrevykh tovarov kapitalisticheskikh stran, 1950-69" (Markets of Primary Commodities of Capitalist Countries)—*BIKI*, Appendix No. 3, 1972.

<sup>2</sup> Content of metal in the ore.

<sup>3</sup> 1950.

and assortment of steel have considerably changed. Ever greater demand is made for quality steels, and thereby also for alloy metals, including manganese, chromium, nickel, cobalt, tungsten and molybdenum. The production of their ores has considerably increased, although the level of their extraction is adversely influenced by the tremendous strategic stockpiles of these metals accumulated by the United States during the cold war and which every year are dumped on the world market to restrain price increases or directly depress them.<sup>1</sup>

In recent years heavy non-ferrous metals have been giving place to light ones—aluminium and magnesium. In physical volume the production of aluminium outstripped that of copper already in the 1950s, and in weight, at the beginning of the 1960s. Since 1963 the consumption of tin and lead, and since 1964 also of zinc has almost stopped growing; the same is also true of their production. This is a result of several causes: overproduction in previous years; huge strategic stockpiles in the United States; the gradual ousting of lead by other metals in producing dyes and batteries; the striving to save an expensive metal like tin, and the consequent change in technological schemes and the tendency to miniaturise electric circuits; the production of very thin coated steel sheet which successfully competes with tin plate, etc.

A market analysis enables us to draw the conclusion that in the coming 10-15 years liquid and gas fuel, aluminium, ferrous metal ores, rare metals and elements have the greatest prospects. As to heavy non-ferrous metals the forecasts are modest. By the way, the prospects of copper are not bad because the growing competition of aluminium and plastics (in the production of pipes) is more than compensated for by the rapid growth of the electrical equipment industry. An increase in the production of tin is practically not envisaged because the consumption of this metal per unit of tin plate is being reduced, and up to 40 per cent of the produced tin is used for this purpose.

During the 1960s the demand for oil was annually increasing by 7 per cent and its production by 7.9 per cent; the

<sup>1</sup> For some metals these sales account for a considerable share of the market transactions. In 1964, for example, the sale of tin stocks by the USA amounted to 18.7 per cent of world consumption and in 1965 to 10 per cent; copper 6.9 per cent and zinc 7.3 per cent in 1965 (UNCTAD. *Commodity Survey*, TD/B/CI/50, 1966, p. 36).

growth rates of natural gas were even higher. Stahle high growth rates of these progressive energy sources are forecast up to the 1980s, although in the opinion of UNCTAD specialists, the growth rates of oil consumption had to decrease to 6 per cent at the beginning of the 1970s, and this actually happened. The extensive use of nuclear electric power is expected to compete with oil and gas. A decline in the growth rates of oil consumption apparently will also be influenced by factors like the probable decrease in the growth rates of the gross product in the principal industrial countries, saving in the consumption of power per unit of the gross product and drop in the rate of the replacement of coal by oil in industry.

Reduced activity in the heavy non-ferrous metals market enables us to trace a characteristic influence of the scientific and technological revolution on definite types of raw materials—a rise in the efficiency of use of a number of minerals, reduction of their consumption per unit of finished goods, and the replacement of costly and scarce raw materials by cheaper ones. The use of secondary materials (metal scrap, and so on) cuts the consumption of ferrous and non-ferrous metals, which is displayed in the higher growth rates of steel production than of the mining of manganese and some other alloy metals. In turn, plastics are exerting ever stronger pressure on the steel and non-ferrous metals markets. Plastics are successfully replacing these metals in some building elements.

Thus, the influence of the scientific and technological revolution on the production of minerals is contradictory: it facilitates a quite swift increase in the consumption and production of only some types of raw materials. With the general expansion in the output of the extractive industry, its individual branches are developing very unevenly.

Unevenness is characteristic of the relationship between industrially developed and developing countries in the reserves and production of various minerals and also of the trend in changing their shares. Prior to the Second World War and in the first postwar years the role of the colonies and semi-colonies in the surveyed reserves and production of many major minerals rose. This came as a natural consequence of the depletion of many rich deposits in the metropolitan countries following long years of their intensive exploitation, and also as a result of the export of capital to the

colonies. In the 1960s, and especially in the second half, a new trend emerged—developed capitalist countries launched intensive mineral prospecting in their own territory in new regions. Without sparing effort and money they seek to lessen their dependence on the supply of some minerals from the Third World which is swept by the anti-imperialist struggle and has begun to nationalise foreign concessions in the extractive industry.

The upshot has been that new big mineral deposits have been discovered not only in developing but also in developed countries: oil and natural gas in the Middle East and Africa, on the one hand, and in the continental shelf of the North Sea and Alaska, on the other; iron ore in Brazil and Australia; bauxites in Guinea, Ghana, Jamaica and Australia; large deposits of copper were found in Iran, and sulphur in Iraq; manganese in Australia and chromites in the Republic of South Africa.

The table on page 243 shows the results of these contradictory processes. It reveals, first, that the share of the Third World in the reserves and production of a number of minerals has begun to decrease in recent years; second, that the role of large developing countries in the world extractive industry still remains so big that new regions in the industrially developed part of the capitalist world will not be able to satisfy the main part of the expected increase in the demand for mineral raw materials in the market of industrial capitalist states, not to speak of seriously pushing back the traditional suppliers.

The territory of developing countries is much larger and has geologically been studied to a much smaller extent as compared with the group of former metropolitan countries. Developed and developing states are increasing joint efforts to discover all possible "subterranean treasures" of minerals. Technological progress is making it possible swiftly and effectively to prospect for and find mineral wealth.

Developing countries hold a leading place in the world capitalist economy not for all the types of mineral raw materials. For reserves and production of coal, lead, zinc, molybdenum, titanium, mercury, uranium, and gold developed capitalist countries hold first place in the non-socialist market and also for the production of iron ore, sulphur, natural gas, nickel and tungsten. For most minerals (oil, natural gas, manganese, iron ore, chrome ore, copper, phosphorites and

Share of Developing Countries in Surveyed Reserves and Production of Major Minerals in the Non-Socialist World<sup>1</sup>

Mineral	Reserves, per cent				Extraction, per cent			Main producers
	1964	1970	1990	1937	1964	1970		
Oil	92.1	90.0	5.1	27.1	60.0	69.0		
Natural gas	42.0	57.0	50.7	8.3	19.0	10.0		
Iron ore	58.0	57.0	50.7	31.0	34.0	34.0		
Manganese ore	89.0	92.0	55.1	95.0	77.0	60.0		
Chrome ore	73.0	55.0	51.5	95.6	56.0	56.0		
Tin	94.0	90.0	91.5	95.6	95.0	92.0		
Copper <sup>2</sup>	62.0	59.0	19.5	43.6	49.0	47.0		
Bauxites	70.0	58.0	0	39.5	73.0	64.0		
Phosphorites	66.0	74.0	13.6	43.6	44.0	41.0		
Diamonds	88.0	no data	88.0	88.0	88.0	74.0		
Lead	27.4	23.0	9.6	28.4	35.0	28.0		
Zinc	19.3	26.0	..	19.3	28.0	25.0		
Potassium salts	32.0	8.0	..	..	10.0	2.0		
Natural sulphur	..	70.0	..	..	26.0	17.0		
Coal	8.0	18.0	0	1.5	8.0	14.0		
Cobalt	..	84.0	..	..	70.0	80.0		
Uranium	..	10.0	..	..	9.0	4.0		

<sup>1</sup> Calculated according to the *Mineral'nye resursy promyshlennogo razvitiya i kapitalisticheskikh i razvivayushchikhsya stran (Mineral Resources of Industrial Capitalist and Developing Countries)*, ed. by N. Lavrov, Moscow, 1972; "Sovremennoye polozeniye kapitalisticheskogo khozyaistva i konyunktura osnovnykh tovarynh rynkov" (The Contemporary Position of Capitalist Economy and the Situation on the Main Commodity Markets)—*BIKI*, App. I; M. Rozin, *Geografiya poleznykh kapitalisticheskikh i razvivayushchikhsya stran (Geography of the Mineral Resources of the Capitalist and Developing Countries)*, Moscow, 1966, p. 41; *Mir kapitalizma* (The Capitalist World), Moscow, 1963.

<sup>2</sup> Primary.

potassium salts) so far the share of developing countries in production is lower than in reserves.

But the main disproportion is not between the reserves and production of various minerals, but between extraction and primary processing, on the one hand, and smelting, on the other. Except tin, all the other metals are smelted mainly in developed capitalist countries. The contrast is particularly striking between the production of ore and of metal in the case of aluminium and steel, two of the main constructional materials in modern industry. This is a graphic illustration of the unequal division of labour in the world capitalist economy between a handful of imperialist states and the overwhelming majority of economically less developed countries which are assigned by imperialists the lot of a supplier of cheap raw materials.

It would be wrong, naturally, to consider that such a disproportion has always and in everything been the result of a deliberate policy of the imperialist monopolies. Such a situation is based above all on objective techno-economic factors which favour the primary processing of minerals on the spot and the obtaining of metal from them in the regions of consumption.

At the same time concentration of the production of metal in the developed capitalist countries and their role as markets for mineral raw materials from developing countries do not eliminate the existing and growing dependence of the imperialist powers on their "mineral treasure-houses". Even a country like the United States, which has large reserves of diverse minerals, is becoming increasingly dependent on the supply from developing countries. Imports from the latter cover almost its entire consumption of tin, chrome ore, manganese ore, columbite, cobalt and asbestos, two-fifths of the iron ore, two-thirds of the mercury and up to 90 per cent of alumina. The dependence on imports of manganese ore, alumina and mercury has grown in recent years. The United States practically stopped exporting crude oil already at the end of the 1940s. For a number of years now up to 15 per cent of the oil consumed in the USA is imported; moreover, two-thirds is supplied by developing countries. True, scientific and technological progress has enabled the United States somewhat to reduce its dependence on imports of copper, tungsten and titanium ores and lead and zinc ores. West European countries depend much more on imports of mineral

raw materials than the United States. In the case of Japan, with rare exceptions, she practically imports all the consumed raw materials. Western Europe imports more than 90 per cent of the consumed oil, chiefly from developing countries, and almost fully covers by their deliveries its needs in manganese ore, chrome ore, cobalt, diamonds, and so on. Oil from developing countries is the biggest import item for the developed capitalist countries. In 1968 they paid about \$12,600 million for it, i.e., 7.9 per cent of their total imports or 39.4 per cent of all their imports from the Third World.<sup>1</sup>

We must not, of course, forget that this dependence is of a different nature because the producers and the actual importers of all these mineral raw materials to developed capitalist states are their own raw material monopolies. The latter batte on this dependence and receive much bigger profits on sales in the home market, even of the United States, of cheap raw material from developing countries than on working the more costly mines and oil fields in their own country.

The scientific and technological revolution has stimulated the vigorous, although one-sided development of definite branches of the extractive industry in developing states, above all oil production. A determining influence on the growth of the extractive sector and on all industries of the developing world has been exerted by oil production, above all in the ten countries in which oil is the main export item. The high growth rates (oil output in developing countries increased 8.4 times between 1948 and 1970), the huge scale of production (more than 1,300 million tons in 1970), the comparatively high price (\$12-16 per ton franco port in the Persian Gulf)—all this long ago firmly changed the structure of the world extractive industry and, to an even greater extent, in the developing countries, in favour of fuel. The share of fuel, above all oil, accounts, in term of value, for nearly two-thirds of the entire output of the extractive industry in the non-socialist world. Oil and oil products are the most important commodities in international trade. They account for one-tenth of world trade in value and more than half in physical volume.<sup>2</sup> The tanker fleet comprises one-third of the

<sup>1</sup> UN. *World Economic Survey, 1969-1970. The Developing Countries in the 1960s: The Problem of Appraising Progress*, New York, 1971, p. 149.

<sup>2</sup> UNCTAD. *Commodity Survey*, TD/B/GI/50, pp. 209, 214.

world tonnage of the merchant marine. Oil makes up almost all the exports of eight countries of the Middle East and North Africa, the overwhelming part of the exports of Venezuela and an essential share in the case of Indonesia.

For its rates of growth in the developing world the oil industry lags behind only the power industry and somewhat outstrips the heavy industry and also helps "to pull up" the entire extractive sector. In Southeast Asia oil production in the last ten years outstripped even that of power. Oil made such a leap between 1958 and 1970 when, under the impact of the scientific and technological revolution, the needs in this energy source rose particularly in the developed states and in Asian, African and Latin American countries which are engaged in industrialisation. At the same time it is quite indicative that in Latin American countries and also in the developed world the growth rates of oil production in the 1960s lagged behind the manufacturing industry, not to speak of power. This attests to the higher level of industrialisation in Latin America and even more so in the developed capitalist countries.

The production of iron ore and metals rose at a quite rapid pace in the first postwar decade, even outstripping oil and manufacturing in the entire non-socialist world both in producer and consumer goods. But between 1958 and 1970 the rates of growth of the extractive industry (exclusive of oil) began swiftly to fall behind all other sectors in the developed and developing states, including Southeast Asia. The extraction of ores became the most lagging section of industry everywhere, except Latin America where it is "helped out" by the rapid growth of the mining of iron ore and bauxites.

The comparatively low growth in the production of ores and metals cut their share in the sectoral structure of industry in developing countries and stopped the increase in the share of the extractive industry. At the same time the role of oil continues to mount, although at a more modest pace.

It is chiefly thanks to the swift expansion of oil production that the weight of the extractive industry rose in these countries and in the entire non-socialist world. Raw materials and fuel are major export items of developing countries. In recent years, however, the share of raw material and fuel exports has been decreasing, which attests to achievements in the industrialisation of these countries.

What is characteristic of the level and pattern of the economy in developing countries is not only the large proportion of raw materials, including minerals, in their exports, but also their small share in imports. In 1968 they spent \$2,700 million for all imported raw materials (exclusive of fuels) or 6.3 per cent of the total and for the purchase of fuel \$3,700 million or 8.7 per cent. Moreover, the share of these commodity groups dropped in recent years, notwithstanding a certain increase in the total value.<sup>1</sup>

In the mid-1960s the extractive industry accounted for over 40 per cent of all the exports of developing countries (including fuel, practically all of it oil, 34.6 per cent in 1968). By the mid-1970s this share, notwithstanding advances in industrialisation, will not be reduced, but, on the contrary, is expected to rise almost to 49 per cent, true, again owing to oil. If we examine the exports of developing countries in the regional aspect, we will find serious differences. As was to be expected, the biggest proportion of export items of mineral origin comes from the Middle East countries (oil) and it is smallest in Asia, where oil production is comparatively small. In the long-term perspective, the share of oil in the value of Middle East exports will again rise and a similar process, to an even greater extent, will affect Africa and Latin America. The share of minerals and metals (iron ore and non-ferrous metals) is relatively bigger in Africa and Latin America.

Share of Mineral Raw Materials in the Total Value of Exports of Developing Countries by Regions<sup>2</sup>  
(per cent)

Commodity group	Latin America	Africa	Middle East	Asia	All developing countries
Minerals and metals					
1964	12	16	2	8	10
1975	13	17	2	8	10
Fuel					
1964	26	21	77	6	31
1975	35	29	81	7	38

<sup>1</sup> UN, *Statistical Yearbook 1969*, p. 49.

<sup>2</sup> UNCTAD, *Commodity Survey*, TD/B/CI/50, p. 77.

Developed capitalist countries, naturally, absorb the lion's share of the mineral raw material exports of developing countries. For example, in 1966, the total value of mineral exports (exclusive of oil) amounted to \$4,600 million, of which the industrial capitalist countries received \$4,200 million or 90 per cent, and developing and socialist states, \$300 million and \$14 million respectively. Of the fuel exports valued at \$12,200 million the imperialist states received \$9,100 million or three-fourths, developing countries \$2,800 million, or almost one-fourth, and socialist countries altogether \$100 million.<sup>1</sup> Since then the situation has basically remained the same. Thus, the production and exports of mineral raw materials depend, to a tremendous extent, upon the markets in developed capitalist countries, on their present and future capacity. In turn, the size of their markets is determined by factors like economic growth, the influence of the scientific and technological revolution, potential natural resources of various mineral raw materials and the trading policy of the former metropolitan countries. All these factors, as it is easy to see, are outside the sphere of activity and are even outside the reach of developing countries. Western monopoly capital is so far able to exert great and at times decisive influence on the sales of mineral raw materials by developing countries and the fluctuation of their prices.

Nevertheless the position of mineral-exporting developing countries, although by far not in all respects, is more advantageous to that of countries which export agricultural raw materials. Authors of the UN survey of economy of developing countries in the 1960s point out: "In contrast to the generally unfavourable market situation that faced most of the agricultural raw materials exported by the developing countries against the competition of supplies from the more advanced countries and man-made substitutes, the 1960s brought a strong and increasing demand for most of the minerals that the developing countries were able to produce."<sup>2</sup>

After the Second World War, in conditions of the scientific and technological revolution, the prices of mineral raw

materials fluctuated within a narrower range than of agricultural raw materials, grain, oil, fats and textile raw materials. True, it should be noted that the movement of prices in the "mineral raw material group" was favourably influenced above all by oil and aluminium and in recent years also by copper. As for the prices of lead and especially tin, they show a general downward trend and their markets continue to remain sluggish.

What are the reasons for this situation as regards prices of mineral raw materials, in addition to the general cause—the influence of the scientific and technological revolution? It is explained by three more factors. First, the production and export of these commodities are directly controlled by powerful imperialist monopolies which are least of all interested in excessive market fluctuations. The mineral raw material market is under greater control of a limited group of monopolies than other exports of developing countries, which creates the possibility of certain planning of production and sales. Second, the national value of the output of oilfields and mines, equipped, as a rule, with the latest equipment which helps to cut costs, is not higher and at times even lower than the value of these commodities in the international market because of the higher labour productivity and also the low wages and concession payments, i.e., important elements of the production costs. This is true, in any case, of the oil industry, inasmuch as international value there is based on the cost of oil production in the United States. One more highly essential point must be mentioned. Labour productivity in the extractive industry, i.e., actually at foreign enterprises, is several times higher than in other industries of developing countries.

Lastly, the third factor. In contrast to the cultivation of agricultural raw materials, the production of minerals is free of fluctuations caused by the weather, i.e., does not depend on a small or too abundant harvest which exerts an equally adverse effect on export receipts.

Nevertheless, the price situation remains unfavourable. It is a fact that developing countries are energetically trying to stabilise prices of primary commodities, including those of mineral origin. Various trading pools have been set up with their participation, for example, in tin, oil and some other minerals for the purpose of somehow regulating the volume of production and exports and also the level of

<sup>1</sup> UNCTAD, *Commodity Survey*, TD/B/C1/50, pp. 15-17.

<sup>2</sup> UN, *World Economic Survey, 1969-1970. The Developing Countries in the 1960s: The Problem of Appraising Progress*, New York, 1971, p. 149.

prices. At the first two UN conferences on trade and development (1964 and 1968) the developing countries put forward proposals on the establishment of a system of stable prices, the conclusion of long-term trade agreements for their export commodities and the abolition of high customs duties on them and especially on their manufactured goods. The Soviet

Exports Growth Performance of Developing Countries  
According to Commodity Structure of Exports, 1955,  
1960, 1965<sup>1</sup>

Commodity group	Weight, <sup>2</sup> per cent	Share of population in 1965, per cent	Per capita GDP in 1964, US dollars	Average annual growth, per cent	
				1955-60	1960-65
Competing food-stuffs	21.7	20.4	233	5.0	6.2
Non-competing tropical foodstuffs	13.6	13.4	113	3.2	5.6
Agricultural raw materials	9.2	13.2	113	3.2	5.6
Fuel	26.9	4.1	342	5.9	6.8
Fertilisers, minerals and gems	0.3	0.2	132	9.7	3.3
Ores and metals of which iron ore and bauxites	7.5	3.3	216	4.4	4.8
copper, tin and other non-ferrous metals	1.2	0.5	206	8.6	5.3
Manufactured goods	10.2	34.5	98	7.4	9.4
Diversified exports	10.6	10.9	205	2.1	3.8
<i>Total</i>	100	100	161	4.5	5.9

<sup>1</sup> Calculated according to data on labour force and incomes in the respective sectors of economy. UNCTAD. *Handbook of International Trade and Development*, New York, 1967, TD/Stat. I, p. 128.

<sup>2</sup> The weight of each group in the total exports of developing countries in 1960-65.

Union and other socialist countries supported the understandable demands of these states and are actively expanding trade with them on the basis of long-term contracts.

The definite advantages enjoyed by mineral-exporting countries, especially of oil, over other countries as regards certain economic performance indicators are revealed in the table compiled by UN specialists given on page 250.

Even a cursory examination of the table brings out the contrast between the quite small population in oil-exporting countries and the highest per capita gross domestic product and also the big annual increase of exports. This characteristic of the special position enjoyed by the group of oil exporters is also demonstrated by our calculations. Ten of the main oil-exporting countries (10 per cent of all developing countries) are inhabited by 60 million people or 3.5 per cent of the population of the entire developing world.<sup>1</sup> Their total oil revenue in 1968, according to data of the secretariat of the Organisation of Petroleum Exporting Countries, amounted to \$ 5,500 million.<sup>2</sup> The experience of these countries shows that no less than 70 per cent of the oil revenue usually goes for financing development plans—altogether about \$ 4,000 million for the entire group of these countries. This, in turn, amounts approximately to 13 per cent of the total investments of all developing countries made with their internal accumulations, or almost three times greater than the proportion of the population in all the ten countries.

Going back to an analysis of the table, let us note that the proportion of the population in countries which export non-ferrous metals is even smaller, while their gross domestic product is much higher than the average and draws near to that in the first commodity group and leaves far behind the second and the third (by the way, the growth of the manufacturing industry exports undoubtedly holds first place, outstripping even oil). Here are figures of the per capita gross product (in US dollars) for individual countries—exporters of mineral raw materials: Kuwait 4,510, Venezuela 916, Libya 707, Chile 576, Jamaica 453, Mexico 443, Ga-

<sup>1</sup> We have taken ten countries in which oil is the only or the biggest export item: Venezuela, Iraq, Iran, Libya, Kuwait, Saudi Arabia, Algeria, Abu Dhabi, Qatar, Trinidad and Tobago. Indonesia is not included in this group because oil is only one of its three main export items.

<sup>2</sup> *OPEC Bulletin*, May 1969, p. 5.

bon 369, Liberia 251, and Zambia 206. In their geographical groups these countries are the leaders in this respect.

The comparatively swift expansion of the extractive industry in developing countries has its shady sides and also its limits. The one-sided concentration on this sector shows that their economy bears typical features of the colonial pattern, while the scientific and technological revolution so far even tends to consolidate it. Yet this revolution promotes in industrial countries above all the development of the manufacturing industry, chiefly its progressive sectors.

The scientific and technological revolution, on the one hand, promotes bigger production of mineral raw materials and, on the other, tends to reduce the proportion of mining in world industry, to raise the weight of foreign trade in manufactured goods as compared with the output of the extractive industry and to reduce the share in the world market held by developing countries whose exports continue to be predominantly of an agricultural-raw material nature.

However much the production and export of minerals stimulate total industrial output and exports of developing countries, they cannot play a decisive part in improving their position in the world market for the very reason that the share of the extractive sector in total industrial output of the world capitalist economy does not reach even 8 per cent.

Highly indicative is the correlation of growth rates of the extractive and manufacturing industries in the more advanced developing countries which are making energetic efforts to build up the manufacturing industry in the first place. In Latin American countries manufacturing has been gradually stepping up its rates of growth and between 1958 and 1967 outstripped the extractive industry (5.5 per cent against 3.8 per cent), which reduced the share of the latter in total industrial output of this region from 50.7 per cent in 1948 to 23.6 per cent in 1967. In Southeast Asia its share dropped from 21.0 to 18.1 per cent during the same period.<sup>1</sup> Thus, there are certain grounds for asserting that the accelerated growth of the extractive industry in the developing world is ensured above all by the swift expansion of oil production in the Middle East and North African countries and the big volume of this costly commodity. But these countries are less

developed economically as regards the level of the manufacturing industry than the leading states in Latin America and Southeast Asia, although they naturally are ahead of the less developed countries of Tropical Africa.

To ascertain the emerging trends in this entire group it is highly important to note the differences between individual regions of the developing world. And they show that industrialisation which ultimately leads to the building up and improvement of the manufacturing industry and its core, the output of producer goods, is steadily breaking its way through first in the more developed Asian, African and Latin American countries and then also in other countries of this group.

## 2. MINERAL RESOURCES AS A FACTOR OF INDUSTRIAL DEVELOPMENT

The mineral raw material sector holds an important part in solving the problem of changing the economic pattern of developing states. The economic potential of most of these countries is so low that they cannot at once abandon the specialisation of the economy in mining; this applies especially to countries with a mono-product economy. On the contrary, they are compelled to make maximum use of the existing raw material sector as the chief source of funds for economic development.

The main trend in the economic policy of such countries is to utilise to the utmost the existing extractive industry as a dynamic sector and a major source of foreign exchange for diversifying the economy and laying the basis for its optimal structure. Such a policy is characteristic of some states, especially where an increase of export resources via agriculture is hampered by unfavourable climatic, soil and other conditions. The economic development programmes of these countries place big hopes in the working of mineral resources, in the extractive industry, as the main force capable, at the present stage of scientific and technological progress, to ensure high economic growth rates. Some countries, where the development of mineral resources was not regarded important in the colonial period, are now paying much attention to the building up of the extractive sector. The economic development programmes of Mauritania, the Arab Re-

<sup>1</sup> UN, *The Growth of World Industry 1938-1961; Monthly Bulletin of Statistics*, November 1968.

public of Egypt and the Sudan, for example, envisage high growth rates of the extractive industry.

Financing of government development programmes largely depends on the receipts from the mineral raw material sector. For example, in Libya where the share of the oil industry in the GNP increased from 50.6 per cent in 1963 to 60.1 per cent in 1968, receipts from oil exports amounted to 80 per cent of the total government revenue on the average. Oil revenue runs to about \$ 2,000 million annually. In Mauritania the income from working the Fort Gouraud iron ore deposits provides more than half of all the national budget revenue (an annual average of 1,000 million African francs). During the first four-year economic programme of Mauritania one-third of all the national economic investments were those made by MIFERMA, an international consortium which works the country's iron ore deposits.<sup>1</sup> The copper industry contributes about 60 per cent of the government revenue in Zambia. In Venezuela payments of the oil industry to the budget, including income from oil concessions, range from 50 to 70 per cent of the country's entire budget revenue.

In recent years a wave of nationalisation has swept developing countries, affecting this time chiefly the extractive sector. The setting up of the state SONATRAC company in Algeria, which fully guides the operation of the oil and gas industries, and also owns a system of pipelines, nationalisation of the property of foreign oil monopolies in Iraq, of copper enterprises in Chile, and the establishment of state control over the copper industry in Zambia have given the respective national governments new and powerful instruments for intervening in the economic life of their countries. But these industries, even when they are taken over by the state, remain primarily suppliers of foreign exchange, preserving their nature of enclaves and their export specialisation.

The point is that countries with a mineral specialisation have developed mining and processing regions. These regions either specialise in the extraction and processing of one mineral (mono-mineralic) or are polymetallic, i.e., they mine and process interconnected minerals; and, lastly, there are comprehensive regions which extract and process several

<sup>1</sup> *Le moniteur africain du commerce et de l'industrie* No. 332, 1968, pp. 11-16.

minerals making up a raw material complex for a definite manufacturing industry.

Such complexes and regions are in a way mere enclaves. Modern industrial enterprises are built in the territory where they are located, and an infrastructure is set up which ensures the needs of these enterprises, including modern electricity and water supply systems and the necessary transport arteries. This creates a semblance of high industrial development in the given country, but these regions are actually little connected with the other economic activities, and inter-sectoral and inter-regional relations are poorly developed. As a rule, in a country where one or another mineral is extracted only the most primitive processing is done locally (dressing of the ore or the production of concentrates), following which the raw material is exported to developed capitalist countries.

The mineral raw material sector is exerting a definite influence on a country's economic pattern along several lines. When the working of a mineral deposit is started this brings about radical changes in the infrastructure. The building of mining enterprises demands substantial investments in the infrastructure, mainly for transport facilities, and the foreign companies concerned do not begrudge money for such expenses. Thus, Comilog, a Gabon company for the production of manganese ore, contributed 323 million francs out of the total investments of 486 million francs, i.e., two-thirds of all the expenses in developing the deposits located near Moanda, in the building of railway lines connecting the new mines with the ocean coast.<sup>1</sup> Altogether mining companies in Africa built more than 2,000 km of railway lines in eight years (1958-65). Another 2,000 kilometres are to be built, which will include Gabon (the Moanda-Libreville line) and also provide an outlet for Zambia's copper through Tanzania's ports. But all the expenses of building the infrastructure are made only in the interests of a definite mining enterprise or complex, and not for the purpose of promoting the economic development of the given country.

The resources of developing countries, too, are mobilised for building the infrastructure. A considerable portion of their investments goes for the construction of roads, bridges,

<sup>1</sup> *Marchés tropicaux et méditerranéens*, October 13, 1963.

ports and railways solely for the needs of mining enterprises. A case in point is the activity of the international Fria concern in Guinea. Under the contract with Fria, the Guinean Government undertook to build roads, do all kinds of earth-and-sewage work on the territory of the enterprises and mines of the concern and also to provide electric power and water. To finance all this work the Guinean Government has set up a special regional development fund. Part of the money received as taxes from Fria is to be contributed to this fund.<sup>1</sup>

Thus, although the establishment of mineral raw material regions provides a considerable impetus to the development of an industrial infrastructure, this process is quite one-sided and is motivated solely by the interests of the mining complexes and not of the country's economy as a whole.

The influence of the extractive sector on the growth and shaping of the economy is also felt in employment, in increasing the number of wage workers. But it is in the extractive sector that the number of wage workers is usually very small in relation to the total number of employed. In Zambia, for example, 16 per cent of the population working for hire are engaged in mining, and in countries like Cameroun only 7 per cent, Zaire about 4 per cent, Chile 2 per cent, and Malaysia about 1 per cent.<sup>2</sup> Mechanisation and automation, specifically the transfer to open-cut mining as a consequence of scientific and technological progress, further reduce the number of employed in this sector. The development of the extractive industry in Africa after the Second World War offers a good example. Here most of the newly discovered big mineral deposits (iron and manganese ore and bauxites) are strip-mined, which makes it possible to utilise widely and very efficiently modern equipment and to abandon the mass employment of unskilled local manpower practised formerly.

The number of workers engaged directly at mining enterprises and also in sectors serving them (transport and port facilities) is very small and tends further to decline. The investment expenditure per one worker here is very high, considerably larger than in West European countries. The

<sup>1</sup> See *Ekonomicheskiye i politicheskiye problemy Afriki* (Economic and Political Problems of Africa. A Collection of Articles by Polish Economists), Moscow, 1969, pp. 36-37.

<sup>2</sup> UN. ID/Conf. 1/43, p. 14; *First National Development Plan 1966-1970*, Lusaka, 1966.

MIFERMA company in Mauritania which is working the exceedingly rich iron ore deposits in Fort Gouraud employs altogether about 3,000 workers and other employees, while its investments amounted to \$ 240 million. Thus the investments per employed person amount here to approximately \$ 83,000.<sup>1</sup>

Foreign companies engaged in the working of mineral resources in less developed countries often utilise cheap local manpower, hiring a mass of unskilled workers with invariably low wages and low productivity. All this, in combination with the small number of wage workers, is the reason for the limited purchasing power of the local population and, consequently, the narrow bounds of the local consumer goods market. Developing and relatively more advanced countries, where a mining industry or foreign and local enterprises existed for a long time, have highly qualified national personnel of workers, engineers and executives who receive comparatively high wages or salaries. But their influence on the total effective demand is insignificant owing to the small number of such people.

The rise and development of inter-sectoral relations in the economy proceed along the lines of utilisation of fixed and circulating assets. As regards fixed assets—machinery, equipment, and so on—the extractive industry is one of the most intensive sectors.

In a developing country the needs of the mineral raw material sector in productive assets are fully satisfied by imports, although some states (for example, India) have already organised their own manufacture of mining equipment. The extractive sector has almost no relations with other sectors of the national economy as regards deliveries of equipment and production materials (explosives, various chemicals, and so on) and, therefore, is unable so far to shape their national economic pattern.

The influence of the mining sector in creating a modern economy in developing Asian, African and Latin American countries evidently is limited. Nevertheless, it is possible to utilise the export-oriented mineral raw material sector as a basis for industrialisation, to turn it into a pattern-shaping sector.

<sup>1</sup> See *Ekonomicheskiye i politicheskiye problemy Afriki*, pp. 31-32.

Certain sectors, on the basis of which it is possible to develop a sufficiently wide national economic complex, can be taken as the point of departure. Since the export sectors are almost the only enclaves of a highly developed commodity economy in many countries of Asia and Africa and in the most backward countries of Latin America, they can and will form the core of the future economy. Vertical diversification of the extractive industry may possibly offer the key to the solution of the problem.<sup>1</sup>

Vertical diversification has shifted emphasis from the production of crude or only initially processed raw material to the production of semi-manufactures or finished goods. The degree of processing the exported raw material will be raised and ultimately a change will be made to exporting the finished goods. This will enable developing countries to receive a greater income than that obtained from the exports of crude or semi-processed raw material. Chilean specialists have estimated, for example, that if Latin American countries were to process themselves the ores, whose annual value amounts to \$2,000 million, they would produce goods worth \$ 50,000 million.<sup>2</sup> Moreover, the export of finished goods and semi-manufactures can ensure a more stable position of developing countries in the world markets because the range of consumers of their mineral output would be extended.

As for employment, here the changes would be not so much quantitative as qualitative. In conditions of the scientific and technological revolution a steep rise in employment cannot be expected. But the enterprises for processing mineral raw materials into semi-manufactures or finished goods will require highly skilled workers and ensure a general rise of labour productivity in the country, which is a major factor of economic growth. The existence of a definite contingent of highly skilled workers who have broken their ties with the countryside and fully turned into wage workers, furnishes

<sup>1</sup> In the mineral sector vertical diversification implies the setting up, on the basis of a definite mineral, of a complex of sectors which consecutively process the raw material up to the semi-manufactures or finished goods, with the simultaneous building up of related enterprises which provide the necessary components.

<sup>2</sup> See *Mirovaya ekonomika i mezhdunarodniye otnosheniya* No. 6, 1967, pp. 46-47.

a considerable stimulus to the expansion of the home market for consumer goods.

In elaborating the strategy of economic development the countries concerned will inevitably face the fact that different types of minerals can be utilised to a different extent for building up their own industry. All minerals can be subdivided into three main groups, from the viewpoint of their practical use for industrialising a developing country.

Minerals of the first group include precious metals, radioactive minerals, rare earths and even such heavy non-ferrous metals as lead, zinc and tin. At the given stage of economic development they provide a country only or chiefly with foreign exchange. They are used also on a quite limited scale in jewellery, electrical equipment and alloys. They cannot be widely utilised in a limited market: machinery and equipment cannot be built from them, nor can they be used as building materials. So far all these metals serve as a source of accumulation, in the value form, through the foreign market.

Minerals of the second group are constructional metals (iron, aluminium and copper in part). They can be utilised as a source of foreign exchange, as the material backbone of modern industry and transport, and as building materials (iron and aluminium).

The third, fuel and power group includes coal, oil and gas. They are utilised as a source for the accumulation of foreign exchange (in case of their export) and also as raw material for the chemical industry, above all the development of agriculture and the light industry.

Countries which possess minerals of the first group are usually in the worst position, the more so because of the downward trend in the market for their commodities. These are countries of Tropical Africa, and some countries of Asia (Malaysia) and Latin America (Bolivia).

Countries of the second group are in a better position owing to the favourable market for their commodities on the whole and the big volume of production and exports. Therefore their accumulation funds are sufficiently large. Moreover—and this is the most important thing—iron ore, as the experience of developed states shows, usually becomes the basis for the development of a steel industry and the latter, in turn, serves as the foundation for a whole complex of metalworking and engineering industries. Of course, in some

developing countries, this tendency may be materialised, for example, in India, Brazil, and Mexico and other comparatively developed countries or can be only in the stage of study (Mauritania). The rich iron ore deposits in Liberia are becoming the basis for the first iron and steel centres in West Africa.

As for countries of the third group, they, on the one hand, undoubtedly are in the most advantageous position (exporters of oil and gas), because they receive the biggest accumulations. On the other, neither oil nor gas so far can serve as a big source of building materials. Their incomes, however, are so large that they, as a rule, can undertake the development of a quite capital-intensive industry, petrochemical, as the dominating one in the future industrialisation complex, and build up a steel industry of the Japanese type—by importing raw materials and exporting finished goods. Moreover, some of them (Venezuela and Algeria) have rich iron ore deposits.

At present the growth of the extractive industry in developing countries proceeds mainly along the lines of extending the productive capacity for the primary processing of the mined minerals.

These countries, however, lack not only the means for building up modern metallurgical works but also the market: the demand for non-ferrous metals is weak and is growing slowly because the industrialisation process in many of them is still at the initial stage. Total production of each metal, except copper, amounts to only several hundred thousand tons.

The mineral raw material sector is a sufficiently vast market for the mining, transport, power engineering and chemical industries (explosives, acids and so on), building materials (cement, bricks, refractory materials) and also requires the building up of a transport system and a power and water supply. This can provide a serious impetus to substantial structural shifts in the economy if developing countries are able to set up related enterprises to supply mining complexes with all the necessary components, including machinery and equipment. But the building of heavy industry plants to serve the mining sector requires big investments with a long recoupment period, costly imported equipment and large numbers of highly qualified specialists, outlays for licences, and so on.

Practically only few of the biggest developing countries, such as India and Brazil, can really create the entire basic complex of a modern heavy industry and obtain the necessary economic effect. In smaller countries the building of heavy industry enterprises of this type will largely depend on the organisation of regional and sub-regional co-operation. Related enterprises can be built on an integrational basis for mining complexes of several countries, for example, such mining regions as Katanga in Zaire and the copper belt in Zambia. Only the state can fully carry out such a programme of comprehensive development on an integrational basis because foreign companies which exploit the natural resources of developing countries will hardly agree to such an undertaking.

Regional and sub-regional integration of developing countries, particularly small ones, can be a highly essential point in shaping the sectoral structure of their future industry, in determining the orientation of the new lines of production on the world, regional or home markets. The economic co-operation of developing countries must also inevitably affect their role in the international division of labour.

The creation of industrial complexes on a regional basis can imply either the combining of consecutive stages of processing (from the raw material to the finished product) or the manufacture of diverse products on a single raw material or technological basis. Industrial complexes of the first type include a number of enterprises specialised in the output of semi-manufactures, which exist in individual countries of the region. Semi-manufactures are supplied to the key enterprise which produces the finished goods. Industrial complexes of the second type are preferable either in places where the mineral resources are extracted or on the basis of big power complexes. Such a form of economic co-operation naturally presupposes quite a high level of the development of the productive forces. Therefore at the present stage developing countries are formulating only plans for the simplest co-operation in creating the most essential industries.

The Latin American Iron and Steel Institute, founded in 1959, is studying the possibilities of industrial co-operation of Latin American countries. Its recommendations point to the need for building joint projects in the iron and steel industry. Between 1940 and 1966 the production of steel in

Latin America increased from 0.5 million to 8 million tons and consumption to 10 million tons; in 1975, according to calculations of economists, consumption will rise to 23 million tons.<sup>1</sup>

It has been estimated that if the regional integration programme is implemented, in 1975 the increase of steel production only to 15 million tons may yield a saving in investments of \$ 3,700 million, that is, approximately \$ 100 million annually.<sup>2</sup> Integration in the aluminium industry would bring a saving of \$ 57 million annually to Latin American countries.<sup>3</sup>

The carrying out of these projects will demand the solution of many problems by developing countries: the supply of raw materials, training of skilled workers and the joint organisation of sales. The problem of marketing the output of the metallurgical industry will inevitably pose the question of building up metal-consuming industries—metalworking, engineering, and others. In other words, a jointly built steel plant can become the hub around which a large industrial complex serving the needs of a whole region could subsequently be built up.

One more type of economic co-operation between developing countries has appeared—the joint mining of minerals and their primary processing. For example, a project for the joint working by Morocco and Algeria of the lead and zinc deposits in the Bou Beker-Touissit area has been drawn up and is being implemented. Approximately 300,000 tons of ore mined in Algeria's territory will be concentrated in the Bou Beker mine (Morocco). The zinc concentrates will be re-exported to Algeria and lead concentrates will be processed by the Oued El Heimser smelter in Morocco.<sup>4</sup> Such joint use of mineral resources and the establishment of industrial complexes on their basis can become an important factor in the economic drawing together of developing countries. Joint use of oil resources of the Sahara could also be a basic sphere of economic co-operation for Maghreb coun-

tries. The joint extraction and export of phosphates could become another sphere of co-operation among countries of this region.

Corollary enterprises, which are created on an integrated basis and should serve both the mining industry and processing enterprises, will enable developing countries to save considerable resources. For example, a number of big plants for the production of superphosphates are being designed or are already being built in North Africa (Algeria, Tunisia, Morocco) on the basis of the very rich phosphate deposits. The implementation of all these projects requires either imports or national production of ammonia, the demand for which will amount to approximately 140,000 tons in this region. The contemplated or started building of small ammonia factories in each of these countries will be expensive and uneconomical in view of the high production costs. There is an opinion that it is necessary to build one large factory by joint effort, utilising Algerian natural gas and also cheap electric power. The building of such a factory, the output of which is to be sold in the three countries, would be \$ 10-15 million cheaper than the construction of three small factories with a similar total capacity. Low costs would make it possible to produce ammonia capable of withstanding competition of foreign suppliers. Such co-operation could yield a saving of about \$ 1 million annually for the three countries.<sup>1</sup> The possibilities of building, by joint effort, of a nitrogen chemical complex which will supply all West African countries are also being studied. In the opinion of experts of the UN Economic Commission for Africa, it is most expedient to build such a complex in Nigeria, in the Niger River delta rich in natural gas.

Integration can play an important part in strengthening the positions of state-owned companies which are working different types of mineral raw materials.

An example of such co-operation is furnished by the ARPEL, the Organisation of Latin American State Petroleum Companies designed to render mutual assistance to its members. This organisation unites such state-owned oil companies as Petroleos Mexicanos, Petrobras in Brazil, Yacimien-

<sup>1</sup> *Comercio exterior de México* No. 1, 1966.

<sup>2</sup> UNCTAD. *Proposals for the Creation of the Latin American Common Market*, p. 8.

<sup>3</sup> UNCTAD. *Trade Expansion and Economic Integration Among Developing Countries*, p. 9.

<sup>4</sup> *Mining Annual Review* 1968, London, 1968, p. 327.

<sup>1</sup> See L. Vinogradova, *Afrika: voprosy integratsii ekonomiki* (Africa: Questions of Economic Integration), Moscow, 1968, pp. 92-93.

tos petroliféros fiscales in Argentina, ENAP in Chile, Ecopetrol in Colombia, ANCAP in Uruguay, YPFB in Bolivia and others. Co-ordinated measures in industrial production and economic policy pursued by this organisation would undoubtedly strengthen the public sector of each country and reinforce the positions of the national oil companies in the economy of the continent.

The promotion of economic co-operation between states presupposes not only joint efforts in the building of new industries but also the development of intra-sectoral co-operation between the existing enterprises. This first of all implies the organisation of production specialisation, in some cases on an interstate basis. This applies to the extractive industry as one of the basic material factors of industrialisation and diversification of the economy of developing countries. But even in countries with an economy concentrated on one industry where it is the main, determining factor of economic development, commercial agriculture plays a substantial and growing part. In other countries of the developing world agriculture has objectively become the main instrument in advancing the economy. Except a few countries which can utilise other factors for their progress (advantageous geographical location on major trade routes, the particularly big scale of foreign aid, and so on), the extractive industry and agriculture are practically the two chief bases for development in former colonies and semi-colonies. To gain a more objective and clear picture of the main features of the mining basis as compared with the agricultural it is expedient to analyse their "pluses" and "minuses".

The advantages of the mining basis or, to be more exact, the mining trend in the national economy, as compared with the agricultural, are apparently as follows. The scientific and technological revolution is exerting a positive impact on the production of progressive types of fuel and many non-ferrous metals as compared with the adverse influence on the production of foods and agricultural raw materials which compete with the West. The extractive industry, in contrast to agriculture, does not depend on such an unstable factor as the weather and has no apprehension of receiving either too big or too small a crop for sale. The higher level of concentration of capital and centralisation of production in the mining industry, together with the earlier mentioned factors, make for better planning of production and marketing. The

bigger dependence of developed capitalist countries on developing countries for a number of minerals than on competing types of foods and the comparatively high economic growth rates of Western countries in the epoch of the scientific and technological revolution create a more stable basis for the extractive industry than for commercial agriculture because of a narrower range of mineral export price fluctuations.

In some developing countries mining enterprises, especially those belonging to big international monopolies, have the highest technical level and the highest labour productivity in the country. They are one of the main, if not the principal, enclaves of a modern economy in a less developed country. The extractive industry ensures, as a rule, much greater foreign exchange receipts and the formation of a bigger accumulation fund than commercial agriculture. Lastly, a number of branches of this industry produce goods which are the direct material "substance" of industrialisation.

The shortcomings of mining as compared with agriculture as one of the bases of economic development also stand out clearly. To begin with, mining enclaves are much less connected with the general development of the national economy than regions of commercial agriculture because the former are marked by the absence of or weak inter-sectoral ties, inability to solve the employment problem and essentially to expand the capacity of the home market. The greater dependence of the extractive industry on foreign markets and the more rigid control of foreign monopolies over the production and sale of mineral raw materials make particularly difficult the task of abolishing the dominance of international finance capital in this field of the economy of developing countries. Nor must we forget that the advantages of the mining basis are limited in time because of the non-replenishable nature of mineral raw materials and the inevitable reduction of consumption rates within some 20-25 years and then of the production of some non-ferrous metals and fuels in view of the discovery, in the course of the scientific and technological revolution, of effective substitutes for many minerals.

All this shows that it is necessary in brief historical periods to utilise thoroughly and soberly all the advantages of the mining sector for building up a developed industrial econ-

omy in Asian, African and Latin American countries, to provide in the development plans for such rates and proportions of the sectors which would make it possible to receive the biggest returns from national mineral wealth.

However important this task might be, it ultimately is only a component of the more general and more difficult problem of developing countries, the problem of accumulation on the solution of which depend the rates of eliminating the colonial pattern of the economy and the ways of their historical progress.

## CHAPTER VIII

### ACCUMULATION OF REAL CAPITAL AND EXTERNAL FINANCING

#### 1. INDUSTRIALISATION AND THE SCALE OF ACCUMULATION

Contemporary scientific and technological progress is exerting a dual influence on capital accumulation processes in Asian, African and Latin American countries. On the one hand, it opens up possibilities for saving resources and accelerating the rate of forming real capital. As the productive forces grow the value of fixed assets is relatively reduced. Another favourable factor is that developing states are able to a certain extent to avoid the tremendous initial outlays of material resources and time for the invention and manufacture of highly efficient machinery and equipment, more improved methods of processing raw materials and manufacturing various goods.

In many other respects, however, the process of capital accumulation in developing countries is more intricate and difficult than it was in West European countries in the past. Modern techno-economic criteria demand capital investments on an incomparably larger scale than in the period of the industrial revolution. This is a result of the change in the pattern of industry in favour of the more capital-intensive manufacture of means of production, an increase in the size of individual enterprises, the use of costly machinery and equipment not only at large and medium-sized, but also at small enterprises. The building up of industry in developing countries is influenced by the general historical tendency, noted by Marx, namely, of "the increasing minimum of capital required with the increase in productivity for the successful operation of an independent industrial establishment".<sup>1</sup>

<sup>1</sup> Karl Marx, *Capital*, Vol. III, p. 257.

Alongside the operation of general factors, the cost of industrial construction is increased owing to specific conditions prevailing in most developing countries. The smaller scale of production, the low level of specialisation and co-operation, the higher cost of machinery and equipment, the less intensive use of fixed assets and the need for larger working capital raise the capital intensity of industrial production as compared with that in developed capitalist states.

The provision of the material and technical conditions for extended reproduction in developing countries is not confined to the immeasurably greater investment in each new enterprise which produces goods for final consumption. The building and normal functioning of industrial establishments become increasingly more difficult without the simultaneous and at times also preliminary construction of a whole complex of mutually supplementary units. This applies above all to the building industry and also a ramified system of land, water and air transport and communications, organised services of power, water and other public utilities. The former primitive or semi-handycraft facilities no longer suffice for these corollary sectors of the economy. A survey of 18 developing countries made in 1965-68 showed that unit capital investments in the power industry and in transport were from 2 to 4.3 times higher than in the extractive and manufacturing industries.<sup>1</sup>

An increase in the scale of the productive infrastructure and its high capital intensity predetermine the need of allotting huge funds for financing it. In developed capitalist states which already have a large infrastructure even now for each \$ 3 of investments in industry and agriculture an additional \$ 2.5 have to be spent on the infrastructure.<sup>2</sup>

All these techno-economic changes dictate big and concentrated investments for industrialisation in developing countries. Ultimately, despite a number of opposite factors, the need in per capita investment rises manyfold as compared with the 19th-century level, although the per capita income in developing countries of Asia, Africa and Latin America

<sup>1</sup> UN. *World Economic Survey 1969-1970*, New York, 1972, Tables 3-32.

<sup>2</sup> See *Mirovaya ekonomika i mezhdunarodniye otnosheniya* No. 6, 1969, pp. 153, 154.

on the average is about the same as it was in Western Europe 100 years ago.<sup>1</sup>

The growing need in investments in developing countries is linked not only with techno-economic factors. There is also the acute problem of providing work to large masses of the unemployed able-bodied population. Moreover, a rise in labour productivity, linked with the changed capital intensity, in turn, leads to a relative reduction of the employed manpower. But it is one of the greatest paradoxes of development, as R. Prebisch pointed at the Second UN Conference on Trade and Development, that a rise in labour productivity might sooner intensify the inadequate dynamism of the economy rather than lessen it, if as a result of such a growth in productivity the surplus manpower cannot find employment with the help of further investments in the economy above those which led to higher productivity.<sup>2</sup>

Numerous studies made in the 1950s and the 1960s showed that in developing countries of Asia, Africa and Latin America the fully unemployed made up from 5 to 11 per cent of the able-bodied population. In other words, their number reached about 25-56 million at the beginning of the 1960s.<sup>3</sup>

But these approximate data do not give a full picture of the scale of the unutilised manpower. Figures of full unemployment are understated both for political reasons and owing to imperfect accounting.<sup>4</sup> Moreover, developing countries are characterised not by full unemployment but by hidden, part-time employment, especially in agriculture, in small-scale urban production and the services. On the whole, in developing countries, according to estimates of V. M. Kollontai and G. Y. Skorov, about one-third of the manpower resources do not participate in economic activity in full or in part.<sup>5</sup>

Such a situation leads to extremely adverse economic, so-

<sup>1</sup> See R. Prebisch, *Towards a Global Strategy*, New York, 1968, p. 2.

<sup>2</sup> Ibid., p. 70.

<sup>3</sup> See *Mirovaya ekonomika i mezhdunarodniye otnosheniya* No. 3, 1969, p. 148; No. 8, p. 41.

<sup>4</sup> As a rule the available information is limited to those who receive money wages and thereby such large sectors as agriculture, the services and others are not taken into account (*International Labour Review*, November 1969, pp. 447-48).

<sup>5</sup> See V. M. Kollontai, *Puti preodoleniya ekonomicheskoi otstalosti* (Ways for Eliminating Economic Backwardness), Moscow, 1967, p. 140; *Mirovaya ekonomika i mezhdunarodniye otnosheniya* No. 8, 1969, p. 42.

cial and political consequences in the life of developing countries. Their economy is doubly harmed. First, a considerably smaller product is created than could have been. Second, the maintenance of the unemployed is a heavy burden for the entire economy, reducing the already low social productivity of labour and worsening the living conditions of the rest of the population. Therefore the drawing of the unutilised manpower into economic activity is one of the most urgent tasks of developing countries.

It is exceedingly difficult to determine with sufficient precision the scale of investments needed to eliminate full and, even more so, partial unemployment. An idea can be gained only through approximate calculations. If we assume that every year 15 per cent of the increase in the able-bodied population cannot find jobs, the army of unemployed will grow by about 2.3 million annually.<sup>1</sup> Such a supposition will not be excessive. In India alone the number of officially registered unemployed increased annually by 800,000 people in the mid-1960s.<sup>2</sup>

In the second half of the 1960s about \$ 2,500 of capital resources were spent for the provision of one work place, according to our estimates. In other words, at least \$ 5,700 million are needed to provide work only to the annual increase of unutilised labour at the present low level of equipment per worker. And this is about 10 per cent of the total investments of developing countries. Since the solution of the employment problem is not confined to providing jobs for the increase in the able-bodied population, the expenditure will be even greater. To absorb the existing army of fully unemployed in at least ten years it is necessary annually to provide an additional 2.5-5 million work places. To create them investments ranging from \$ 6,000 million to \$ 12,000 million annually are needed. These approximate calculations show that even without affecting partial unemployment the solution of the problem of fuller utilising the manpower resources demands tremendous capital outlays.

The increased needs in investments in developing countries first of all run up against the size of the existing accumulation fund. This fund is one of the key links which

<sup>1</sup> The annual increase of the gainfully employed population was 10 million in 1950-60 and 15 million in 1960-68.

<sup>2</sup> UN. *World Economic Survey* 1967, p. 78.

Total and Per Capita Investments in Fixed Capital in Developing Countries and Developed Capitalist States<sup>1</sup>  
(1967; US dollars, in current prices)

Country	Asia		Africa		Latin America		Developed capitalist states	
	Total, mil. lion dollars	Per ca- pita, dollars	Country	Total, mil. lion dollars	Per ca- pita, dollars	Country	Total, mil. lion dollars	Per ca- pita, dollars
India	4,128	8	Ghana	220	27	Argentina	2,747	119
Indonesia	784	7	Zambia	305	77	Bolivia*	78	21
Iran	1,413	54	Kenya	223	22	Brazil*	2,099	25
Jordan	74	35	Malawi*	33	8	Venezuela	1,718	184
Malaysia*	442	52	Nigeria*	679	11	Colombia	931	48
Pakistan*	1,771	17	ARE*	825	27	Mexico	4,235	93
Syria	228	40	Tanzania	150	12	Paraguay	79	37
Thailand	1,286	39	Togo*	30	18	Peru	692	56
Philippines	1,300	38	Tunisia	244	54	Uruguay*	53	19
Sri Lanka	203	17	Ethiopia*	181	8	Chile	814	91
						Ecuador	148	27

<sup>1</sup> Calculated according to: UN. *Statistical Yearbook* 1968; UN. *Yearbook of National Accounts Statistics 1968; International Financial Statistics*, March 1970.

\* 1966

determine the economic and the socio-political position of these states. On the one hand, the scale of accumulation is a result of the historical development of the national economy. This fund is the material expression of the entire complex of internal and external factors inherent in a developing country. On the other, it is the initial basis for further development, the material mainstay for a realistic economic and social policy. The annual volume of resources accumulated by individual countries is shown in the table on page 271.

Available data, for all their approximate nature owing to imperfect national statistics and difficulties of making international comparisons, offer an idea of the investments in Asian, African and Latin American countries.

The small scale of investments is characteristic of developing countries. The economic backwardness of these countries is displayed first of all in per capita investments. On the average they amounted to \$ 50-60 in Latin America, \$ 20-25 in Africa and \$ 15-20 in Asia. The general level was greatly exceeded only, for example, by Venezuela, and some small oil-producing countries. But they cannot be considered typical. There are only a few of them and they, as a rule, are small or middle-sized countries, they hold an insignificant place in the total population and accumulations of developing countries.

The insignificant size of the national accumulation funds is one of the main stumbling blocks to the industrialisation in Asia, Africa and Latin America. Annual investments exceeded \$ 1,000 million only in ten of the 31 countries enumerated in the table. In five countries they were more than \$ 500 million and in 14 did not reach \$ 250 million. We should add to this that the table gives data, as a rule, for the major countries in various regions. Many small states like Cambodia, Laos, Nepal, Upper Volta, Cameroun, Chad and Central American states are not represented in the table. This makes it even clearer that most of the developing countries have small capital resources.

The building of modern highly efficient industrial enterprises, which play a leading part in eliminating economic backwardness, inevitably involves big capital outlays. Therefore the solution of such cardinal questions of industrialisation as the sequence in the development of heavy and light industries, the building of profitable and relatively cheap en-

terprises, in addition to other conditions, depends on the existing size of the accumulation fund.

The shortage of capital investments in developing countries becomes especially clear when compared with industrially developed capitalist countries. The annual capital investments in the United States alone are more than three times greater than in all the developing countries combined. All the former colonies of Britain or France make smaller investments than their former metropolitan countries. Particularly striking is the contrast in per capita investments. They are also uneven in developed capitalist countries. But there the unevenness is of a qualitatively different nature. It is displayed against the general background of a high level of per capita investments which exceed \$ 300. Only in a few of the developing countries do per capita investments exceed \$ 50, while in a number of countries, including the largest ones, India, Pakistan and Nigeria, they do not reach even \$ 15-20.

Quantitative data, however, do not fully reflect the differences in investments between developing and developed capitalist countries. Each unit of investment conceals unequal real values. What tells here is both the big volume of the available fixed assets and also their different technical level. In developed capitalist countries new investments are embodied in highly efficient machinery and equipment which service large-scale production and ensure the priority growth of the most progressive sectors of the economy. In developing countries, however, the modern sector of the economy claims a small share, and the predominant part of the investments is swallowed up by small-scale production and low-efficiency equipment.

The laws of accumulation operating in the world capitalist economy, which were discovered by Marx more than a century ago, have determined the extremely uneven economic development of individual countries. This unevenness, intensified in the period of monopoly capitalism, has led to the concentration of wealth in a small group of developed capitalist states and to a sharp curtailment of the possibilities of accumulation on the other pole, at which the population of the world capitalist village is located.

## 2. THE LEVEL OF ACCUMULATION AND ITS CHANGE

The elimination of social and economic backwardness of Asian, African and Latin American countries is closely and directly linked with an increase of investments which act as a material basis for the development and restructuring of the national economy. The creation of a new industrial potential provides the conditions for the accomplishment of such industrialisation tasks as an increase in economic growth rates and the transformation of the former colonial monocultural pattern of the economy. On this also depends the rise in labour productivity and greater employment, social transformations in society and elimination of the unequal position of these countries in the world capitalist economy. Thereby the priority growth of accumulation in developing countries has now turned, paraphrasing the well-known statement of Engels about the translation of the possibility of expanding production into an objective necessity, "into a compulsory law".<sup>1</sup>

In the postwar period the share of investments in the gross domestic product of all developing countries, according to available estimates, rose from 15 per cent in 1950 to 17.4 per cent in 1966-68. This attests to definite achievements of developing countries which began to advance after prolonged stagnation.<sup>2</sup> Economic development has acquired a somewhat more stable nature, despite the recessions in individual countries and even in groups of countries.

But a comparison with the past of both the developing countries themselves and of the now developed capitalist states, however necessary it is for understanding the changes, can serve only as one aspect in evaluating accumulation in developing countries. A no less important aspect of the problem is how the existing rate of investments meets present-day requirements of economic growth, to what extent it promotes the elimination of socio-economic backwardness and the effort to attain economic independence.

<sup>1</sup> Frederick Engels, *Anti-Dühring*, Moscow, 1969, p. 326.

<sup>2</sup> There are no direct data on the rate of their capital investments in preceding historical periods. But if we are to proceed from the statistics of the growth of the gross product which increased by 2.9 per cent annually in 1938-48 and prior to the war was even lower, it may be held that during the Second World War the rate of capital investments was about 9-10 per cent, and was below these figures before the war.

The rate of capital investments achieved by developing countries has enabled them considerably to raise the pace of economic growth in the postwar period. But the bigger gross output could not exert any tangible influence on the economic situation in these countries and the standard of living of the people, above all because of the steeply increased population growth. Moreover, the gap in per capita production between economically backward countries and developed capitalist states, far from narrowing, on the contrary, continues to widen.

The need to send up the investment rate, dictated by the industrialisation process, is not confined to the task of accelerating economic growth. Additional demands are also presented by the technical restructuring of the economy. In developing countries the need is particularly great because this restructuring has to be effected in relatively shorter periods. A graphic example is afforded by the volume and nature of the utilised power, which is one of the important criteria of advance of the productive forces. By the end of the 1960s in developing countries per capita consumption of power ranged from 3.6 to 20 per cent of that in Western Europe and from 1.2 to 6.2 per cent of that in the United States. The lag in the most progressive types of power is especially big. In the case of electric power consumption the share was as follows: in Africa, from 1.2 to 3.1 per cent; in Asia, from 1.0 to 2.7 per cent; and in South America from 7.1 to 20 per cent.<sup>1</sup> The power facilities in many countries still consist of primitive types of energy. Thus, H. Bhabha, eminent Indian physicist, addressing a conference on the peaceful uses of atomic energy in the mid-1950s, noted that the power facilities of India rested on a by-product of agricultural production, cow dung, the burning of which produces 75 per cent of the sources of primary power.<sup>2</sup>

Measures aimed at eliminating industrial backwardness and, above all, at accelerating the development of the manufacturing and power industries acquired great importance in developing countries in the postwar period. Data for 1955-65 enable us to trace a definite connection between the general level of capital investments and the change in

<sup>1</sup> UN. *Statistical Yearbook 1969*, pp. 58-65, 324-27, 337.

<sup>2</sup> See *Mirovaya ekonomika i mezhdunarodniye otnosheniya* No. 2, 1967, p. 17.

the share of the manufacturing and power industries in the social product. During those ten years the biggest growth in the share of these sectors (by more than one-fourth) was registered in Burma, Venezuela and Peru where the investment rate was much higher than the average. In Guatemala, Mexico, Nigeria, Pakistan, the Sudan and other countries the substantial increase in the share of the manufacturing and power industries proceeded in conditions of a more rapid growth of investments than in other developing states.<sup>1</sup>

Contradiction between the economic growth needs of developing countries and the existing level of accumulation also consisted in that the investment rate remained almost unchanged over a long period. The insignificant size of the fixed assets which developing countries possess curtails the possibility of expanding output by replacement of the worn-out producer goods. In the mid-1960s almost half of the capital in developed capitalist countries (48 per cent) was accumulated on the basis of depreciation, while in the United States depreciation even exceeded new investments.<sup>2</sup> In most developing countries the share of depreciation did not reach even one-third of the total accumulation.

Instruments of labour are being steadily improved in the course of the technological progress. That is why the replacement of old machinery and equipment by new, even of the same value, leads to an increase in output. Thereby replacement, requiring no additional expenditure, becomes a kind of equivalent to new investments. Marx drew special attention to the role played by depreciation in extended reproduction. He pointed out that "where much constant capital, and therefore also much fixed capital, is employed, that part of the value of the products which replaces the wear and tear of the fixed capital, provides an *accumulation fund*. . . . This accumulation fund does not exist at levels of production and in nations where there is not much fixed capital. This is an important point".<sup>3</sup>

The limited significance of depreciation in the accumulation of capital in developing countries necessitates new investments by increasing the accumulated part of the newly

created social product. Therefore a rise in the rate of capital investment becomes an indispensable condition for extended reproduction, for accelerating the growth rates of the economy and its structural and technical reconstruction.

International economic literature furnishes approximate estimates of the level of capital investments which would meet the needs of developing countries. The best known estimate was made by UN experts who called for allotting 18-20 per cent of the gross domestic product for capital investment. But in the second half of the 1960s even this figure was regarded as insufficient by many specialists. Thus, F. Herrera, President of the Inter-American Development Bank, at a conference of businessmen of Latin American countries held in New York in May 1967, stated that for the dynamic development of countries of that continent investments should reach 25 per cent of their product and not 16 per cent as was the case at the time.

In view of the need to increase the rate of capital investments special importance attaches to the economic expediency of the growth of accumulation. In other words, can the Asian, African and Latin American countries assimilate big investments? Would not this be a mere waste of resources and effort that would lead only to adverse consequences? Is not this an unbearable and disorganising aim?

It is exceedingly difficult to answer this question, because a satisfactory methodology of measuring the "absorptive capacity" has not yet been elaborated. It is indisputable that the efficiency of investments will not be the same in different countries. It will be influenced by prices, the size of the home market and the export possibilities, the availability of skilled manpower and other factors. But indirect indicators can help evaluate the ability of an economy rationally to utilise a certain volume of investments. One of these indicators can be the ratio of gross capital investments to the increment of output for a definite period of time. The capital-output ratio makes it possible to determine what percentage of gross capital investments will be needed for producing every additional per cent of the gross product. The lower the capital intensity, the less resources will have to be allotted for accumulation and consequently the easier it is to accelerate economic growth rates.

The restraining effect high capital intensity exercises on accumulation can be traced in the case of developing coun-

<sup>1</sup> UN. *World Economic Survey 1967*, pp. 27, 32.

<sup>2</sup> See *Mirovaya ekonomika i mezhdunarodniye otnosheniya* No. 6, 1969, p. 157.

<sup>3</sup> Karl Marx, *Theories of Surplus-Value*, Vol. II, Moscow, 1968, p. 480.

tries. Their capital intensity is by far not the same, ranging between the mid-1950s and the mid-1960s from less than a 2:1 capital-output ratio to more than 6:1. Moreover, in countries with the highest capital intensity (over 6:1 in Argentina, Burma, Bolivia and Uruguay) investments increased very slowly. The average annual growth rates of investments declined during this period from 2.0 to 1.7 per cent in Burma, from 6.7 per cent in 1955-60 to 0.7 per cent in 1960-67 in Argentina. In Bolivia in the second half of the 1950s capital investments dropped not only relatively but even in absolute terms. In Uruguay the decrease of investments has continued from the mid-1950s up to the present.

Only a few developing countries have a very high capital intensity. In the mid-1960s they accounted for 5 per cent of the population and 9 per cent of the output in Asia, Africa and Latin America. On the average the capital-output ratio for 1960-67 amounted to about 3.6:1. During the same period in developed capitalist countries it was about 5:1, and it had been even higher in the period of their industrialisation. A comparison shows that the growth of accumulations in developing countries is not only necessary but also economically justified. It yields a bigger return than was the case at the respective stages in the now industrially developed countries of Western Europe.

The profit rate of operating enterprises in developing countries can also serve as an indirect indicator. It, as a rule, is not lower, and often even higher, than in developed capitalist countries. Thus in Mexico, for example, the profits of all private corporations equalled 15 per cent of the net worth (before taxes which are relatively low in this country) and of large corporations, 20 per cent.<sup>1</sup> In India the profit rate of private companies (after payment of taxes) was 9-10 per cent.<sup>2</sup> In Pakistan, as pointed out by Mahbub Ul Haq, well-known economist, an average net profit rate in private industrial sector reached 30 per cent.<sup>3</sup> An overaccumulation

<sup>1</sup> Raymond W. Goldsmith, *The Financial Development of Mexico*, Paris, 1966, p. 47.

<sup>2</sup> See I. I. Yegorov, *Finansirovaniye planov ekonomicheskogo razvitiya Indii* (Financing India's Economic Development Plans), Moscow, 1967, p. 86.

<sup>3</sup> Mahbub Ul Haq, *The Strategy of Economic Planning. A Case Study of Pakistan*, Karachi, Lahore, Dacca, 1963, p. 47.

of capital would inevitably lead to a rise in capital intensity above certain limits and a reduction of the profitability of private enterprises below the level enabling them to operate. But this, of course, does not mean that it is necessary and expedient to raise the rate of capital investments regardless of the conditions of individual countries, and that this is always the only all-decisive prerequisite for the further advance of production and the attainment of economic independence.

The level of accumulation is a summed-up result of investments by different states of Asia, Africa and Latin America. Owing to its nature it reflects typical features inherent in these countries because of their special place in the world capitalist economy. Its significance also lies in the fact that it serves as a criterion for comparing the developing countries and helps better to understand the specific conditions of Asia, Africa and Latin America and evaluate the condition of individual countries. At the same time an examination of different regions and definite countries makes possible a deeper analysis of their accumulations and helps bring out the main factors which determine this process.

By the mid-1950s many difficulties of the initial period of developing Asian countries had been gradually overcome, and the internal political situation had been to a certain extent stabilised. Much attention began to be paid to advancing production, national development programmes were initiated and the direct participation of the state in construction was stepped up. Changes in the international situation facilitated the efforts of developing countries. The imperialist powers, having realised that it was impossible to subjugate the developing countries in Asia by the former methods of direct dictation and open armed pressure, had to utilise more widely economic instruments of influencing the national liberation movement. To achieve their ends the developed capitalist countries were compelled to furnish extensive economic aid not only to pro-imperialist governments but also to India, Pakistan and other countries. The establishment and development of mutually beneficial co-operation with socialist countries was of great support in strengthening sovereign Asian states. All these favourable conditions sent up accumulation in almost all the developing Asian countries (see table on p. 280).

In none of the 17 countries of this region (except Burma) which account for the overwhelming part of the output and gross capital investments of the entire region did the rate of accumulation decline as compared with the period of colonial domination. Notwithstanding certain fluctuations in the accumulation level of individual countries caused either by internal or external reasons during the years of political independence, a trend towards the priority growth of investments in the consumption of the national product clearly emerged. The stable upward trend of the accumulation level in the last 20 years is a characteristic feature setting apart the development of Asia from Africa and Latin America.

The tremendous dependence on foreign capital and difficulties in eliminating the consequences of colonial rule greatly influenced the economy of African countries and the level of their accumulation. (See table on p. 282.)

The political instability and weakness of the new regimes, especially in the first years after the proclamation of political sovereignty, also made themselves felt. Accumulation of capital in the African continent at the beginning of the 1950s—and in a large part of it during the entire decade—proceeded in conditions of the preserved direct colonial rule. During this period Africa acquired special significance for international capital, West European in the first place.

The need of West European countries in mineral and agricultural raw materials swiftly expanded, while the possibilities of obtaining them were curtailed. The anti-imperialist movement reached a high pitch in Asia. Penetration into Latin America was hampered both by the stronger national bourgeoisie and the US monopolies which had captured the most promising raw material sources of that region. The purchase of the needed raw materials in Latin America required dollars which were scarce in Western Europe. The rich mineral resources and the ease of working the deposits, the availability of large tracts of fertile land and the small density of the local population, the existence of traditional economic ties and big colonies of European settlers, the low cost of transportation owing to the proximity of Africa to Europe—all that made this continent a lucrative sphere for the investment of capital. Alongside the stimulation of the export of private capital, allocations of government funds also increased. Following West European capital, US capital also began actively to make inroads there, attracted by the

Share of Total Capital Investments in the Gross Domestic Product of Developing Asian Countries<sup>1</sup>  
(per cent)

	1950-52 <sup>2</sup>	1955-57	1960-62 <sup>3</sup>	1963-65	1966-68 <sup>3</sup>
Entire region	11	...	15	...	18
I. Countries with an increased rate of accumulation (above 2 per cent of the GDP)					
India	10	13	16	14	16
Jordan	...	13	17	16	16
Iraq	12	22	19	12	16
Iran	...	10	15	17	19
Kuwait	...	12	12	14	18
Lebanon	...	16	22	20	22
Malaysia	...	10	16	18	16
Pakistan	6	7	13	16	14
Saudi Arabia	...	10	14	7	16
Syria	...	14	17	14	17
Thailand	15	15	18	22	29
Turkey	10	13	14	14	17
Philippines	12	9	13	11	18
Sri Lanka	10	15	14	13	14
II. Countries with an unchanging rate of accumulation (fluctuations within $\pm 2$ per cent of the GDP)					
Afghanistan	...	...	19	...	20
Burma	9	21	17	19	8
Indonesia	...	...	9	...	9

<sup>1</sup> UN. *Yearbook of National Accounts Statistics, 1969*; UN. *Statistical Yearbook 1969*; UN. *World Economic Survey 1967*; UN. *World Economic Survey 1970*; UN. *Economic Survey for Asia and the Far East 1967*; official publications of respective countries. The data are given in rounded percentages.

<sup>2</sup> Data for the year nearest to the beginning of the period.

<sup>3</sup> Investments in fixed capital.

Share of Total Capital Investments in the Gross Domestic Product of Developing African Countries<sup>1</sup>  
(per cent)

	1950-52 <sup>2</sup>	1955-57	1960-62 <sup>3</sup>	1963-65	1966-68 <sup>3</sup>
Entire region	17	22	16	...	16
I. Countries with an increased rate of accumulation (above 2 per cent of the GDP)					
Ivory Coast	...	...	14	...	18
Cameroun	...	12	10	11	16
Nigeria	6	12	12	13	12
ARE	...	15	17	15	19
Senegal	...	...	10	...	13
Tunisia	...	12	19	23	22
Ethiopia	...	4	12	11	13
II. Countries with an unchanging rate of accumulation (fluctuations within $\pm 2$ per cent of the GDP)					
Zambia	...	23	17	16	22
Malawi	10	16	10	14	12
Togo	...	15	11	21	17
Uganda	...	17	19	12	15
III. Countries with a decreased rate of accumulation (above 2 per cent of the GDP)					
Algeria	29	22	24	15	18
Ghana	...	18	19	25	15
Kenya	...	23	15	11	15
Zaire	23	30	10	13	16
Liberia	...	19	21	29	15
Libya	...	29	49	30	20
Morocco	21	11	11	12	14
Tanzania	18	19	12	12	15

<sup>1</sup> UN. *World Economic Survey 1967*; UN. *World Economic Survey 1970*; UN. *Yearbook of National Accounts Statistics, 1969*; UN. *Statistical Yearbook 1969*; official publications of respective countries. The data are given in rounded percentages.

<sup>2</sup> Data for the year nearest to the beginning of the period.

discovery of new big oil deposits. As a result, accumulation in Africa, according to UN estimates, rose from 16.6 per cent of the gross product in 1950 to 21.5 per cent in 1955.<sup>1</sup> In some countries, as seen from the table on page 282, in the mid-1950s accumulation exceeded even this high level. In Algeria it reached 22 per cent, Kenya 23 per cent, Zaire 30 per cent, and Libya 29 per cent.

The high level of accumulation, because of its colonial nature, however, was of limited significance for the economy of African countries and did not serve as a reliable basis for a general advance of the productive forces and rise in the living standard of the masses.

The bigger investments ensured above all the development of the extractive industry and the production of agricultural commodities for export, accentuating the one-sided export orientation of the economy and its dependence on the imports of manufactured goods. The limited nature of the influence, as pointed out earlier, also consisted in that the created large-scale production both in industry and agriculture was poorly linked with the local African economy. Foreign enterprises were in effect British, French, Belgian and American enclaves on African soil. They represented a part of the economy of the imperialist powers and catered to their interests. It was these ends that were served by both the export of capital from developed capitalist states and also the capitalisation of a considerable part of the internal income obtained from exploiting the African peoples.

The winning of political independence and the shaping of a national economy involved great difficulties in many African countries. The accomplishment of economic tasks was impeded by the instability of political power, inter-tribal hostilities and interstate conflicts. The drawn-out war of the French colonialists against the Algerian people, of British imperialism against the people of Kenya, the armed intervention in Zaire, and the Anglo-Franco-Israeli aggression against Egypt inflicted great harm on the economies of these African countries. The mass exodus of European settlers and the transfer of foreign capital from Algeria, Zaire, Kenya, Tanzania and Uganda bled white the economy of these countries. By 1964 production in Algeria and Zaire

<sup>1</sup> *Klassy i klassovaya borba v razvivayushchikhsya stranakh*, Vol. 2, p. 27.

had dropped by two-thirds as compared with the colonial period.

The internal and external difficulties cut the level of accumulation in Africa beginning with the mid-1950s. In a large group of countries (as seen from the previous table) the drop was precipitous. The situation began to improve only at the end of the first half of the 1960s. According to calculations of the UN Economic Commission for Africa, the actual volume of investments in this region, excluding the Republic of South Africa, in 1961 remained at the level of the preceding year, in 1962 it decreased by 8.5 per cent but in 1963 there was already a noticeable rise (7.2 per cent), which continued in the next year—13.6 per cent.<sup>1</sup>

Undoubtedly, the new forces, engendered by political independence and the general weakening of imperialism's positions in the world, are making themselves felt. This is demonstrated by African realities—the consolidation of state sovereignty, growth of industrial and agricultural output, measures designed to subordinate the economy to national interests, and the expansion of equal economic relations with socialist countries. For the region as a whole the average level of accumulation rose from 15.7 per cent in 1961-65 to 18.1 per cent in 1969.<sup>2</sup> Notwithstanding the preserved, and in some cases an increased big dependence on foreign capital, African countries are succeeding in wresting ever greater concessions from imperialism.

In the ARE the overthrow of the semi-colonial pro-imperialist system paved the way to an economic advance. Substantial successes were registered in the early 1960s when many of the main sectors of the economy were nationalised and placed under state control and the radical socio-economic reforms were launched in the country. The annual allocations for development rose from 107 million Egyptian pounds in 1952-59 to 300 million Egyptian pounds under the First Five-Year Plan (1961-65). The policy of accelerating the elimination of the economic backwardness determined the faster growth of accumulation as compared with consumption. Between 1955/56 and 1959/60, capital investments increased by 17.1 per cent and consump-

tion rose by 34.4 per cent; during the First Five-Year Plan the increase in investments was 112.9 per cent and consumption 46.8 per cent.<sup>1</sup>

Big positive changes in the accumulation process have been registered in Algeria in recent years. The strengthening of the public sector and the determined offensive on the positions of foreign capital in key industries have enabled the government to utilise more fully the rich natural resources for national development. The steep rise in oil export revenue has been used primarily for capital investments. In 1969 the share of accumulations reached 29 per cent of the GDP.<sup>2</sup> This not only exceeds the average accumulation rate in Third World countries but also greatly surpasses that in other oil-producing countries which have not taken the path of progressive socio-economic transformations. Another important distinction of capital accumulation in Algeria is that the newly built productive capacities are either Algerian property or are under direct state control.

In the new historical situation many other countries—Tunisia, Zaire, Morocco and Senegal—are also successfully accumulating capital.

During the long period of independent development Latin American countries have attained a higher per capita level of production and accumulation than in Asia and Africa. But Latin America, as before, remains an object of imperialist exploitation. Even the most developed Latin American countries continue to lag greatly behind the countries of Western Europe and North America for the main economic indicators. All this directly affects the level of accumulation (see table on page 286).

At the same time Latin American countries had definite advantages over raw material suppliers from Asia and Africa. One of them was the higher general level of development which made it possible to adapt a country more swiftly and better to the needs of the market situation. A considerable part was also played by the fact that Latin American countries were located far from the theatres of war and did not suffer war destruction. The exploiting of these advantages and their extension have been facilitated

<sup>1</sup> UN. *A Survey of Economic Conditions in Africa 1960-1964*, p. 28.

<sup>2</sup> World Bank. *International Development Association. Annual Report 1971*, Washington, 1971, p. 58.

<sup>1</sup> International Monetary Fund. *Staff Papers*, Vol. XIV, No. 3, Washington, November 1967, p. 458.

<sup>2</sup> *Tiers monde* No. 47, 1971, p. 547.

Share of Total Capital Investments in the Gross Domestic Product of Developing Latin American Countries <sup>1</sup> (per cent)					
	1950-52 <sup>2</sup>	1955-57	1960-62 <sup>3</sup>	1963-65	1966-68 <sup>3</sup>
Entire region	17	18	18	...	17
I. Countries with an increased rate of accumulation (above 2 per cent of the GDP)					
Brazil	11	17	18	15	17
Honduras	13	16	13	15	17
Mexico	12	16	14	15	16
Panama	12	13	16	19	20
Paraguay	8	14	15	16	16
Peru	17	28	19	22	21
Chile	11	11	16	13	16
Jamaica	10	17	19	19	21
II. Countries with an unchanged rate of accumulation (fluctuations within $\pm 2$ per cent of the GDP)					
Argentina	19	17	22	19	19
Bolivia	...	17	14	18	17
Guatemala	10	15	10	19	12
Colombia	17	24	18	18	16
El Salvador	...	12	12	13	14
Ecuador	11	16	13	14	11
III. Countries with a decreased rate of accumulation (above 2 per cent of the GDP)					
Venezuela	24	28	17	18	18
Uruguay	...	18	16	15	12

<sup>1</sup> Calculated according to: UN. *World Economic Survey 1967*; UN. *World Economic Survey 1969-1970*; UN. *Statistical Yearbook 1969*; UN. *Yearbook of National Accounts Statistics, 1969*. The data are given in rounded percentages.

<sup>2</sup> Data for the year which is nearest to the beginning of the period.

<sup>3</sup> Investments in fixed capital.

by political sovereignty which placed definite bounds to the actions of the imperialist powers and helped achieve more advantageous terms of trade.

The faster growth of exports as compared with imports led to a substantial influx of foreign exchange at the beginning of the postwar period. Export receipts were so big that, notwithstanding the huge profits extracted by foreign companies which dominated the export sectors, the gold and foreign exchange reserves of Latin American countries steeply increased, which was one of the favourable factors in the growth of accumulation.

Besides an increase in the demand for export goods the expansion of national production was stimulated by weaker competition of foreign goods. The development of national industry was accelerated. Capitalist relations began to penetrate agriculture ever more deeply, encompassing not only production for export, but also for the satisfaction of domestic needs in food and agricultural raw material. The national bourgeoisie, having gained in strength, began widely to utilise different instruments of state power both for financing economic development and for a certain restriction of the positions of foreign capital. Foreign property was partly nationalised in a number of countries. Special government and semi-government financial institutions were set up in many Latin American countries to promote national enterprise.

The strengthening of the national bourgeoisie, expansion of investment activity by the state and the use of the gold and foreign exchange reserves, alongside the considerable influx of new foreign capital—all these were the general economic conditions which had helped to raise the rate of accumulation in most Latin American countries by the mid-1950s. In subsequent periods, as seen from the table on p. 286, the trend of accumulation was no longer the same in all Latin American countries. In one group, including Venezuela, Colombia and Peru and also in Uruguay and Ecuador the level of capital investments declined. In some of them after a recession a certain advance began. But in no country did accumulation reach the level of the mid-1950s. In another group of countries—Brazil, Mexico, Panama, Paraguay, El Salvador and Chile—the share of accumulation rose. Such uneven development was a consequence of both limited possibilities of national capital and the differing changes in

external factors in individual countries. The unsolved agrarian question and the slow development of agricultural production, deeper inflation and worsened export terms negatively affected the accumulation of capital in Argentina, Brazil and Uruguay. Moreover, agrarian changes and the nationalisation of the oil industry, railways and the power industry made for stability of accumulations in Mexico. The steep acceleration of growth rates in agriculture and especially industry facilitated the increase of accumulations in Panama and Paraguay. The prolonged maintenance of high world prices of copper and increased taxation of foreign companies promoted a growth of accumulation in Chile.

Data for a wide range of developing countries, covering the main part of the population and the product, show that despite big differences between geographical regions and individual countries, the accumulation process has a number of common features. First is the uneven movement of accumulation at different stages of the postwar period. In many countries the advance was interrupted by more or less prolonged recessions. But accumulation, because of its weak basis, was influenced more strongly even than the gross product by internal conditions (weather fluctuations, military conflicts, the internal political situation) and also by external factors (the world market situation, the policy of the imperialist powers and the development of co-operation with socialist states). Second, the differences in the level of accumulation between regions and individual countries were definitely narrowed and the rates of capital investments were averaged to a certain extent. The biggest growth was registered, as a rule, in countries with a comparatively low initial level of investments. In Asia these were India, Pakistan, Turkey and the Philippines; in Africa—Nigeria, the Arab Republic of Egypt, Tunisia and Ethiopia; in Latin America—Brazil, Mexico, Paraguay, Chile, Ecuador and Jamaica. Third, the level of accumulation and its changes were particularly affected by the foreign exchange and financial position of developing countries. A big part was also played by important components like the size of the available gold and foreign exchange reserves, the volume and growth of export receipts and external foreign exchange and credit relations. That is why an optimal combination of all these conditions, as was the case in some countries exporting oil and some scarce commodities in certain periods,

facilitated the attainment and maintenance of a high rate of accumulation. And, conversely, special difficulties were experienced by countries in which the combination of these conditions was unfavourable.

### 3. SECTORAL STRUCTURE OF INVESTMENTS

The process of social development, the growth rates of production and the place of individual sectors of the economy, labour productivity and the use of manpower resources greatly depend not only upon the level of accumulation but also on its use by sectors. While the present situation in an economy is characterised by a share of the sectors in the created social product, the future is largely determined by the choice of the trends of investments.

The structure of investments in individual developing countries is shaped under the impact of many factors. The level of economic development and the size of the home market are of great importance. In the economically most backward countries and also at the initial stages of the development of countries with a comparatively higher level of production, the production infrastructure is the main consumer of capital resources in most cases. Only as the economy is consolidated is the role of industry raised and greater attention paid to agriculture. But at a definite stage the further advance of industry and agriculture and the expansion of foreign trade again dictate large-scale construction of the infrastructure. This leads to the preservation and at times even to a rise of the share of this sector in the allocations of capital.

The nature of the special difficulties experienced by a country in one or another period is reflected in investments. In many countries the worsening of the balance of payments, and the consequent restraint and even reduction of imports of manufactures, above all consumer goods, have stimulated a growth of investments in national industry. In a number of countries the exacerbation of the food problem and the effort to attain greater self-sufficiency in this sphere have determined the reallocation of capital resources in favour of agriculture.

The strategy of economic growth followed by different states is exerting a big and often determining effect. The

choice of accelerated industrialisation and the content invested into the concept of industrialisation—the relationship of heavy and light industries or the policy of priority reliance on agriculture—lead to corresponding changes in the trend of investments. The choice of the development strategy affects to the greatest degree the composition of state appropriations. But it also seriously influences the private sector through taxation, credit, foreign exchange and other measures of state regulation.

A considerable place among the factors influencing the allocation of capital investments is held by the absolute scale and sectoral structure of the influx of resources from developed capitalist and socialist states. Besides countries in which foreign funds comprise an essential part of the investments, this factor affects the recipients of foreign aid on a small scale. The point is that foreign resources, as a rule, make up only a small share of the total capital investments. The biggest part is covered with a country's own appropriations. Thereby the allocation of external resources greatly influences the distribution of the internal resources and the entire composition of investments in developing countries.

The role of each of these factors is unequal in different Asian, African and Latin American countries. Moreover, they often operate in opposite directions. That is why not one of them, taken separately, can explain such an intricate process as the allocation of capital resources between sectors of the economy. Only the intertwining of different factors, their joint and simultaneous action shape the composition of investments in individual regions and countries.

At present the bulk of investments in developing Asian countries is channelled into material production. Although the sphere of non-productive services continues to hold an important place in many countries, its share is gradually declining. This tendency is particularly displayed in the biggest countries of the region, India and Pakistan (see table on page 291).

Industry and the infrastructure claim the lion's share of productive investments. In the productive sphere they accounted for 74 to 86 per cent in Afghanistan, from 50 to 75 per cent in India, from 82 to 91 per cent in Pakistan, from 74 to 79 per cent in Thailand, and about 86 per cent in the Philippines. Agriculture held a much smaller place; moreover in a number of countries its share was decreasing.

Investments in Fixed Capital in Selected Developing Asian Countries<sup>1</sup>  
(per cent)

Country	Years	Industry <sup>2</sup>	Agriculture	Productive infrastructure <sup>3</sup>	Other sectors
Afghanistan	1956-60	26.5	12.5 <sup>4</sup>	49.5	11.5
	1961-66	30.3	23.5 <sup>4</sup>	33.9	12.3
India <sup>5</sup>	1951-55	13.7	33.7 <sup>1</sup>	21.0	31.6
	1956-60	30.0	20.1 <sup>1</sup>	30.3	19.6
(plan) <sup>5</sup>	1961-65	31.2	22.0 <sup>4</sup>	29.1	17.7
(plan)	1969-74	26.7	22.0 <sup>4</sup>	29.4	21.9
Pakistan <sup>6</sup>	1950-55	36.0	6.0	27.0	31.0
	1956-60	31.0	7.0	34.0	28.0
(estimate)	1961-65	27.6	13.3	35.7	23.4
Thailand	1953	31.3	18.2	36.2	14.3
	1960	29.7	20.0	27.5	22.8
	1965	23.5 <sup>6</sup>	15.1	61.4	
Philippines	1957	25.3	6.1	13.5	55.1
	1962	29.4	7.5	18.3	44.8
	1965	16.5	1.7	28.7	53.1

The big share of industry in capital investments is an important indicator of the restructuring of the economy in developing Asian countries. In all countries for which data are available the share of the sector is close to 25-30 per cent. Priority financing of industry was dictated by the elimination of the consequences of the colonial period and the creation of prerequisites for the advance of all sectors of the economy. The reallocation of investments in favour of industry has facilitated the priority development and improvement of this sector.

As early as the 1950s growth rates in manufacturing rose swiftly, reaching 8 per cent annually, a figure somewhat

<sup>1</sup> Calculated according to: UN, *Yearbook of National Accounts Statistics 1969*; *Economic Survey of Asia and the Far East 1966*; *Eastern World Annual*, 1967, p. 18; *Pakistan Basic Facts, 1965-1966*, Karachi, 1966; G. C. Jangir, *Our Economic Problems*, p. 405; *Eastern Economist*, May 2, 1969, p. 968.

<sup>2</sup> Manufacturing and mining.

<sup>3</sup> Transport, communications, power industry, irrigation.

<sup>4</sup> Including irrigation.

<sup>5</sup> Expenditure for development, including government expenses for education and public health.

<sup>6</sup> Manufacturing industry.

higher than that of developed capitalist countries and in other Third World regions. Subsequently the high rates were maintained. The average between 1961 and 1971 was 6.7 per cent, which is quite considerable if account is taken of the increase in the total volume of output. Priority growth of the output of producer goods as compared with consumer goods is also another distinctive feature of developing Asian countries. Thus, between 1961 and 1971 the average annual increase in the output of heavy industry was 8.5 per cent, while in light industry the rate was 5.6 per cent.<sup>1</sup> The accelerated expansion of industry led to a substantial growth of the industrial potential in developing Asian states.

A change in the composition of investments and the influence of their growth on the development of industry can be traced in the case of India. This biggest country of the region took to the industrial path earlier than the neighbouring countries and registered substantial achievements in industrial development as the basis of her economic independence. In the first years of independent development India channelled a big part of the investments into agriculture and irrigation, which was linked with the building up of a new raw material basis for the most developed Indian industries, the cotton and jute. But already in that period direct investments in industrial development reached a substantial scale. Appropriations for industry rose especially with the spread of industrialisation. During the Second Five-Year Plan investments in this sector amounted to Rs. 18,000 million and were 4.5 times greater than the sum allotted in the preceding five-year period. Subsequently the volume of resources earmarked for India's growing industry increased still further.<sup>2</sup>

The concentrated routing of capital resources into industry played an important part in the development of the Indian economy. This ensured higher growth rates of industrial output. Between 1951 and 1967 the annual increment was 6.9 per cent, while in the last ten years of colonial rule the output of industry increased altogether by 6 per cent.<sup>3</sup>

<sup>1</sup> *Industrial Development Survey*, Vol. III, New York, 1971, p. 2; *Monthly Bulletin of Statistics*, August 1972, p. XVIII.

<sup>2</sup> G. C. Jangir, op. cit., p. 405.

<sup>3</sup> *Eastern Economist*, Annual Number 1961, p. 203; *Some Basic Statistics Relating to Indian Economy*, Bombay, 1967, p. 1.

The pattern of industry was greatly affected by the allocation of industrial investments. The main part was channelled into large-scale industry. Under the First Five-Year Plan it accounted for about 70 per cent and in the Second Five-Year Plan for 80 per cent of all investments in industry.<sup>1</sup> This sharply altered the ratio between large- and small-scale production. While in the early 1950s small-scale and handicraft establishments predominated in industrial output, in 1966-67 almost two-thirds of the industrial output was produced at large enterprises.

The priority financing of heavy industry was another important trend in the allocation of industrial investments.

The reorientation of capital resources in favour of the key sectors of modern industry facilitated the gradual elimination of the historically shaped disproportion between the heavy and light industries. Thus, between 1961 and 1969 the growth rates in the output of the engineering industry exceeded more than twice over those in all manufacturing industries. This enables India to meet a substantial part of her needs for various capital goods with her own production. In national consumption the share of imported machinery and equipment decreased from 50 per cent in 1951 to 25 per cent in 1967.<sup>2</sup>

Definite changes in the composition of capital investments also emerged in a number of African countries. The low level of agricultural and industrial production and, above all, the poor development of manufacturing, the tremendous dependence on the world capitalist market and the interference of imperialist powers in the internal affairs of young independent states greatly hamper the struggle of the African peoples for economic and social progress. Suffice it to note that in the mid-1960s the overwhelming part (86 per cent) of the means of production consumed in the African continent were imported.<sup>3</sup> Moreover, if we exclude the relatively industrially developed countries of North Africa, the position of other states is even more difficult. All this attaches special significance to the allocation of investments.

The use of capital resources in individual independent African states can be judged by the table on page 294. It in-

<sup>1</sup> G. C. Jangir, op. cit., p. 405.

<sup>2</sup> *Industrial Review* No. 5, 1969, p. 45.

<sup>3</sup> *UN. A Survey of Economic Conditions in Africa 1960-1961*, p. 95.

Investments in Fixed Capital of Developing African Countries<sup>1</sup>  
(per cent)

Country	Years	Industry <sup>2</sup>	Agriculture	Productive infrastructure <sup>3</sup>	Other sectors
Zambia	1955	43.6	2.2	25.6	28.6
	1967	23.2	4.6	13.0	59.2
Kenya	1964	15.3	18.0	26.8	39.9
	1968	16.2	13.0	22.6	48.2
Malawi	1955	8.7	15.2	23.9	52.2
	1963	1.4	14.5	27.5	56.6
ARE	1959-60	28.8 <sup>4</sup>	17.2 <sup>5</sup>	24.5	29.5
	1964	27.9	23.2	28.6	20.3
	1967	29.4	19.4	31.2	20.0
Sudan	1955	2.4	8.5	25.5 <sup>7</sup>	63.6
	1962	10.6	30.5	20.4	38.5
Togo	1964	9.7	8.9	81.4	
Tunisia	1960	7.6 <sup>6</sup>	18.8	24.5	49.1
	1968	21.3	19.2	16.8	42.7
	1972	29.8	19.2	14.6	36.4
Ethiopia	1961	19.2	4.4	32.0	44.4
	1967	22.7	5.5	36.1	35.7

cludes a small number of African countries for which the respective data are available. But it, to a certain extent, can be regarded as representative and reflecting African conditions. It contains data for states of the three biggest regions of the continent, Northern, Eastern and Western. Among them are countries with different levels of development and social conditions. This helps us to gain an idea of the general features and tendencies in allocating capital resources in the African continent.

In African countries the non-productive sphere holds an

<sup>1</sup> Calculated according to: UN, *A Survey of Economic Conditions in Africa 1960-1964*; UN, *Yearbook of National Accounts Statistics, 1969*; *Statistical Handbook of the United Arab Republic 1952-1967*, Cairo, 1968, p. 218.

<sup>2</sup> Manufacturing and mining.

<sup>3</sup> Transport, communications, power industry, irrigation.

<sup>4</sup> Including power industry.

<sup>5</sup> Including irrigation.

<sup>6</sup> Including fishing.

<sup>7</sup> Including trade.

even bigger place in investments than in Asia. Although its share is declining, it is still greatly curtailing the possibilities for the productive use of resources. The infrastructure is the biggest item in the sphere of production. According to national development programmes of many African countries, such a position will be preserved for a long time. In contrast to Asia, industry plays an important part only in a few countries, while in most of them agriculture prevails. According to calculations of the UN Economic Commission for Africa, in eight countries—Nigeria, Egypt, Sudan, Tanzania, Zambia, Rhodesia, Mauritania and Malawi—the share of agriculture in investments rose from 10.2 per cent in 1958 to 18.0 per cent in 1964.<sup>1</sup> At the same time, as the table shows, the share of investments in industry began to rise only in recent years. This growth is particularly noticeable in countries with a lower initial level, for example, the Sudan and Ethiopia.

Difficulties of industrial development in many African countries are connected not only with the small share of this sector in investments. Unfavourable conditions which raise the cost of building industrial projects are playing a definite part. This point was particularly emphasised in a UN survey of economic conditions in Africa: "The high capital cost of modern African industries, because of their higher degree of capital intensiveness, should, of course, be offset by greater efficiency and higher returns per unit of investment (which is obviously its justification). Unfortunately, however, African industries are often burdened with capital costs which have no bearing on their productivity; these simply tend to wipe off the benefits of higher mechanisation and even raise total costs per unit of output. For a variety of reasons, it costs much more to set up a factory incorporating a given degree of mechanisation in Africa than in Europe or even in the countries of South-East Asia. To give one example, the fixed capital cost of a textile mill with a capacity of one million square yards is US \$380,000 in Africa, compared with US \$260,000 in Europe. In a West African country a factory with more or less the same equipment would require US \$743,000."<sup>2</sup> A similar situation holds true in the building of heavy industry enterprises. Thus, according to designing estimates, the cost of

<sup>1</sup> UN, *A Survey of Economic Conditions in Africa 1960-1964*, p. 35.

<sup>2</sup> *Ibid.*, p. 102.

building an 800-mm rolling mill with an annual output of 300,000 tons is \$16.8 million in Niger, while in France it is \$12 million.<sup>1</sup>

The results of numerous surveys made in different African countries have brought out a number of causes which lead to additional unproductive costs in industrial construction.<sup>2</sup> The purchase of land for building industrial projects is costly. In Ghana, for example, in building many industrial enterprises the cost of the land was \$4 per square foot, while in India and Pakistan it was half of that price. In some other African countries, especially smaller ones, the price of land for industrial needs was 2.5 times higher than in Ghana.

The cost of machinery and equipment is raised by the terms of their purchase in the world capitalist market. Equipment is often bought in small lots, and this raises its price and transportation costs. The wide use of swing credits of suppliers also tends to increase costs. Of considerable importance is the fact that African businessmen are little familiar with the international equipment market and are compelled to resort to the services of various brokerage and consultation firms from developing capitalist states. There have been instances when, in addition to the usual high commission fees, brokers charged five times more than the actual market price.

Unfavourable conditions increase the cost of industrial construction not only when buying land and importing equipment, but also at the final stage, during the installation of the plant. Owing to the lack of national personnel, this work, as a rule, is done by foreign specialists who are paid even higher salaries than in developed capitalist states. As a result, the cost of installing equipment in African countries is 75-100 per cent higher than in Western Europe.

Notwithstanding the formidable difficulties, industry is beginning to play an ever bigger part in the economy of African countries. The annual rates of increase of output in the manufacturing industry rose from 7 per cent in the 1950s to 7.3 per cent in the 1960s. Thanks to the priority development of this sector, its contribution to the general increment of the gross domestic product rose respectively from 12 per cent to 18 per cent during this period.<sup>3</sup>

<sup>1</sup> See *Stroitelstvo natsionalnoi ekonomiki v stranakh Afriki*, p. 70.

<sup>2</sup> *UN. A Survey of Economic Conditions in Africa 1960-1964*, pp. 102-03.

<sup>3</sup> *Industrial Development Survey*, pp. 2, 22-23.

The growth of industrial investments holds an important place in this process. Two groups of countries in the African continent have a high level of investments in industry. The first consists of countries with rich mineral resources, for example, Libya, Algeria, Zambia and Liberia. Big investments (primarily foreign) have determined the swifter expansion of industrial output in the extractive and, above all, in oil-producing countries.

Among these countries the industrialisation process has been most intensive in Algeria. Its salient feature is the big proportion of capital investments in industry. Their share in the total rose from 23 per cent in 1963 to 51 per cent in 1969. The plan for 1970-73 calls for channelling 45 per cent of all investments into industry.<sup>1</sup> The Algerian Government is implementing a policy of diversifying industrial output through the accelerated building up of a number of heavy industries for which there is a good raw material basis. Thus, a national steel industry has been created during the years of independence. The steel plant in Anaba has an annual capacity of 400,000 tons. The expansion of this plant, now under way, will send up steel production to 1.5-1.8 million tons.<sup>2</sup> This will provide the basis for the development of the engineering industry and the manufacture of electrical equipment and metalwares. The second large group of heavy industries will utilise the oil and natural gas reserves. They include oil refineries, petrochemical factories and enterprises for liquefying gas. One more important feature of Algeria's industrialisation is the establishment of close ties between industry and agriculture. A factory for the production of urea was commissioned in Arzew in 1970. The building of a compound phosphorous fertiliser factory is nearing completion in Anaba. Its output will fully satisfy the country's needs and even be exported in part. Thereby the development of industry will increasingly satisfy the needs of agriculture in fuel, fertilisers, pesticides and fungicides and also in farm machinery and implements and equipment for the irrigation and development of new lands.

The second group includes countries which before the expulsion of the colonialists had a comparatively big indus-

<sup>1</sup> *Tiers monde* No. 47, 1971, pp. 550-61.

<sup>2</sup> *Ibid.*

trial potential and undertook independent economic development before the others. Among them are the Arab Republic of Egypt, Tunisia, Morocco and Ghana. But even within this group the position is not the same. Egypt stands out among them; thanks to the consistent deep-going socio-economic changes essential shifts have been made there in the national economic pattern of investments and their allocation within the industrial sector.

Industrialisation in Egypt necessitated increased financing of industry. In 15 years (1952-67) huge resources were invested in this sector—1,029 million Egyptian pounds out of the total sum of 3,000 million pounds during this period. Investments in industry have particularly grown since the early 1960s. While the annual average for the 15-year period industrial investments amounted to about 70 million Egyptian pounds, in 1961-65 they exceeded 100 million pounds.

With the general increase of industrial investments definite changes in their composition have taken place. The concentration of the main industrial assets in the hands of the state and the big material and technical assistance rendered by the Soviet Union and other socialist countries have enabled the Arab Republic of Egypt to undertake the building up of its own heavy industry. Large enterprises like the oil refineries in Suez and Alexandria with a total throughput of 2 million tons, a coking by-product and steel plants in Helwan and others were built. The increase in the output of producer goods raised the share of heavy industry in total industrial output from 28 per cent in 1952 to 39.5 per cent in 1966.<sup>1</sup>

The Israeli aggression inflicted considerable harm on the Egyptian economy, particularly her industry. Restoration of the destroyed projects and the big expenditure for reinforcing the military potential had seriously complicated the country's economic position and brought about a reduction of investments for civilian purposes. These circumstances continue to influence the economic policy of the Arab Republic of Egypt. But capital investments by the government have begun to rise and the industrialisation of the country is kept up.

<sup>1</sup> See BIKI, 1967, Appendix No. 13, p. 11.

Industry holds first place in state investments—35 per cent of the total. The bulk of the industrial investments goes into heavy industry, oil production, expansion of the Helwan steel plant, and the building of a mineral fertiliser factory.

Alongside new construction, special significance attaches to raising the efficiency of investments and increasing accumulations within industry. For this purpose the system of managing the state-owned economic institutions and enterprises is being reorganised. Economic independence, profitable operation and the expansion of production with their own resources must become the basis of their activity. The new conditions of operation of the public sector—up to the closing of unprofitable enterprises—make it possible considerably to extend the self-financing of the public sector by capitalising the additional profit. The priority financing of industry and measures for improving the economic performance of enterprises are creating favourable opportunities for consolidating Egypt's economy and raising the importance of industry.

Allocation of capital investments not only in comparatively developed countries but also in the economically most backward states is indicative for assessing the trend of further economic development of contemporary Africa. A case in point is Ethiopia, in whose economy semi-feudal relations prevail, while the village is only just emerging from the stage of communal development. In contrast to the recent past, accelerated industrialisation has been launched. Capital investments in industry doubled between 1961 and 1966 and reached 77 million Ethiopian dollars, greatly outstripping the general growth of investments.<sup>1</sup> By 1968 industrial output had almost doubled as compared with 1962. The progress of industry is still insignificant. It accounts for a mere 8 per cent of the gross product and by far does not satisfy even the small internal needs. But these first steps speak of new, progressive tendencies in the changing pattern of the country's economy.

Changes in the composition of investments related to the industrialisation process began in Latin America earlier than in Asia and Africa. Their main trend was to raise the share of industry. At the initial stage of industrialisation

<sup>1</sup> UN. *Yearbook of National Accounts Statistics, 1967*, p. 195.

Investments in Fixed Capital of Developing  
Latin American Countries<sup>1</sup>  
(per cent)

Country	Year	Industry <sup>2</sup>	Agriculture	Productive infrastructure <sup>3</sup>	Other sectors
Bolivia	1960	65.2	1.0	26.4	7.4
	1968	36.9	4.4	38.2	20.5
Venezuela	1953	28.0	7.0	12.6	52.4
	1960	36.2	10.7	21.1	32.0
Guatemala	1958	23.0	14.2	24.2	38.6
	1964	31.0	13.0	56.0	
Mexico	1966-68	25.0	14.0	45.0	16.0
El Salvador	1968	22.2	4.4	17.3	56.1
Uruguay	1961	17.8	10.7	17.8	53.7
	1967	15.0	16.4	11.7	56.9
Chile	1966-68	23.4	16.7	25.6	34.3
Jamaica	1960	18.1	12.3	15.5	54.1
	1967	39.8	6.4	13.6	40.2

the proportion of industry rose on account of agriculture. In subsequent years it increased already not so much at the expense of agriculture as of a certain reduction in the non-productive sphere.

This shift did not occur simultaneously in different Latin American countries. In some of them industry took a leading place in investments already prior to the Second World War. Thus, in Mexico more than one-fourth of all investments were channelled into industry in the 1940s. In some other countries such changes began much later. For example, in Colombia, Guatemala, and some other states the share of industrial investments remained insignificant up to the mid-1940s.<sup>4</sup> This determined the uneven industrial development and changes of the economic pattern in individual Latin American countries.

<sup>1</sup> Calculated according to: UN, *Yearbook of National Accounts Statistics, 1969*; UN, *World Economic Survey 1969-1970*, Tables 3-31.

<sup>2</sup> Manufacturing and mining.

<sup>3</sup> Transport, communications, power industry.

<sup>4</sup> Raymond W. Goldsmith, *The Financial Development of Mexico*, p. 75; A. Johnson, *Overhead Capital*, Edinburgh, 1967, p. 164.

Since changes in the composition of investments began much earlier, industry in Latin America has reached a higher level than in Asia and Africa. At present more than half of the output of the manufacturing industry in developing countries is produced by Latin America. For the share of industry in national output, especially per capita, Latin American countries have greatly outstripped Asian and African states.

But the path of dependent capitalist development has restricted the progress of Latin American countries. For all their differences they continue to remain a comparatively less developed part of the world capitalist economy. Financial exploitation by foreign capital, weakness of the national bourgeoisie and its desire to substitute partial reforms for radical changes in the socio-economic system which has outlived itself have predetermined not only the slow growth rates of investments but also their allocation between sectors of the economy. The scale of investments in industry is insufficient for satisfying the present-day needs of industrialisation of Latin American countries. In the last 15 years industrial output developed slower than in Asia and Africa. Moreover, the annual growth rate declined somewhat. While in 1955-60 industrial output in Latin American countries rose by 6.4 per cent every year, in 1961-71 the increase was 6.2 per cent.<sup>1</sup>

A study of the composition of investments in Latin America makes it possible to evaluate more thoroughly the results of economic development of individual countries in this region. At the same time many developing countries in Asia and Africa are now undergoing stages of economic growth characteristic of Latin America in the past. Thereby the record of Latin America gives a clear idea of the difficulties in eliminating economic backwardness. It shows that the absence of a precise and well-formulated strategy of industrial development, emphasis on import-substitute production without the simultaneous and consistent preparation of conditions for expanding the industrial base ultimately restrain the growth of investments in industry and slow down the pace of industrialisation.

<sup>1</sup> *Monthly Bulletin of Statistics*, August 1972, p. XVI.

## 4. THE ROLE OF FOREIGN CAPITAL

The building up of industry and reconstruction of the economy of developing states in Asia, Africa and Latin America are bound by numerous ties, both visible and invisible but no less strong, with the world capitalist market and the activity of foreign capital. Developed capitalist states still account for more than 70 per cent of the foreign trade of developing countries and more than 90 per cent of the finances they receive from external sources.<sup>1</sup>

The relationship between the money and material resources received from the outside and the scale of the gross domestic product, capital investments and imports of developing countries graphically demonstrates one of the important aspects of the monetary and financial dependence of these states on the world economy.

Relation of the Net Influx of Money and Financial Resources to the Gross Product, Accumulation Fund and Imports of Developing Countries<sup>2</sup>  
(per cent)

	1961	1963	1965	1966	1967	1968	1969	1970
Relation to the gross product	4.3	4.2	4.3	3.9	4.0	4.2	4.0	4.0
Relation to accumulation	26.3	26.1	27.5	25.6	26.0	...	...	...
Relation to imports	27.5	27.7	27.6	25.5	26.3	27.8	26.3	26.4

These data indicate only one side of the monetary-financial relations of developing countries with developed capitalist states. They do not reveal the export from developing

<sup>1</sup> See *Kommunist* No. 4, 1970, p. 98.

<sup>2</sup> UN. *International Flow of Long-Term Capital and Official Donations, 1963-1967*, New York, 1969, p. 55; UN. *Monthly Bulletin of Statistics*, May 1970; UNCTAD. *Review of International Trade and Development 1969/70*, Geneva, August 26, 1970, p. 65; OECD. *Press Release*, Paris, June 28, 1971, p. 10.

countries of huge profits, dividends and interest payments and also the legal or illegal transfer of capital to developed capitalist states. These opposite flows of monetary and financial resources, which result from the exploitation of Asian, African and Latin American countries by international capital and their unequal position in the world capitalist economy, will be examined further on. At this point we merely want to note that the influx of external funds acts as an essential factor in the present process of industrialisation of developing countries and is exerting a great influence on the general level of their accumulations, especially the part of the investments made in foreign exchange. The need for developing countries to enlist such a substantial part of the investments from external sources has been dictated by socio-economic and scientific and technological reasons.

Industrialisation in brief historical periods is always linked with the priority growth of accumulation as compared with the increase of the social product. The gap between the volume of the mobilised internal savings and investments is becoming particularly big if the process of radically breaking up the former socio-economic organisation of society and the creation of a corresponding administrative and financial machine is dragged out. It is these circumstances that are characteristic of most developing countries. That is why acceleration of the pace of industrialisation and change of the pattern and technical basis of the economy of developing states have given rise to the need for capital investments on a scale unprecedented in the past. The ruling circles of most developing countries saw the easiest and most accessible way for replenishing the shortage of internal accumulations, especially in the first years after winning political independence, in attracting external resources. Another reason for the acute demand for foreign capital has been the necessity to purchase in the world market large quantities of equipment, raw and other materials for industrial construction. The insufficient growth of export receipts and the absence of gold and convertible currency reserves also dictated the attraction of foreign resources on a wide scale. The swiftly mounting foreign exchange needs of developing countries were also linked with the necessity of buying technological know-how for industrial development and the substantial expenses for the services of foreign specialists. An important, and for some countries deter-

mining, part was played by the long-standing dependence on foreign capital with the consequent payment of big profits, dividends and interest. All this predetermined their increasing dependence on resources from the outside.

The flow of capital from developed capitalist states to developing countries, in turn, was linked with a number of general factors of imperialism's economic and political situation and the exacerbation of its contradictions.

The importance of economic instruments employed by international capital in its expansion has risen immeasurably under the new historical circumstances prevailing in the world capitalist economy and in relations with developing countries. The export of capital holds a leading place among them. It has become the primary tool of the neo-colonialist policy designed to ensure the political and economic interests of world capitalism. Prevention of the further curtailment (disintegration) of the world capitalist economic system and the maintenance of economic growth rates in the capitalist world are the primary tasks performed by the export of capital.

The advance of the national liberation movement in Asia, Africa and Latin America has placed on the order of the day the question of the future of capitalism in these continents, which were formerly the colonial empire of international capital. The imperialist powers are bending every effort to keep the developing countries in the world capitalist system and to preserve and consolidate their positions in them.

The growing might of the world socialist system and the expansion of its economic and financial co-operation with developing countries have struck a most powerful blow at the influence of international capital in the Third World. While the winning of political independence by former colonies deprived the developed capitalist states of the uncurbed right to dispose of their material and manpower resources, the strengthening of the external economic ties of developing countries with socialist countries opened up the possibility for eliminating the dictation of international capital in foreign trade, monetary and financial relations and the transfer of scientific and technological know-how.

The need to increase the export of capital to developing countries was also prompted by the requirements of expanding the world capitalist market and maintaining the

rates of production in the developed capitalist states themselves. Asian, African and Latin American countries continue to remain an essential, though not the decisive, link of the reproduction process in the world capitalist economy, a link without which this entire chain is incomplete. They remain an important buyer of manufactured goods and supplier of raw materials, notwithstanding the priority growth of trade in finished goods and raw materials between developed capitalist states themselves. At the end of the 1960s more than 20 per cent of the total exports of all developed capitalist states went to developing countries. For some leading capitalist states exports to these countries played an even more important part. Third World countries received 43 per cent of Japanese, 31 per cent of US and 24 per cent of British exports. Deliveries from developing countries satisfied 42 per cent of the import needs of Japan, 28 per cent of Britain, 27 per cent of the United States, 25 per cent of Italy and 23 per cent of France.<sup>1</sup>

In the mid-1950s, however, the growth rates of the exports of developing countries were slowed down and this accentuated their lag in world trade. The further spread of this tendency objectively led to the curtailment of the world capitalist market and hampered its expansion beyond the bounds of developed capitalist countries. The traditional basis of maintaining trade relations with Asian, African and Latin American states through payments for imports by exports became inadequate, new and big impulses were required. They were provided by the increase in the export of capital.

One more essential factor which sent up the export of capital to developing countries is the exacerbation of inter-imperialist contradictions. Greater commercial, monetary and investment rivalry between the monopolies of the United States, Western Europe and Japan intensified their struggle in Asian, African and Latin American countries. Defending the interests of their bourgeoisie from the drive of competitors, the governments of developed capitalist states resorted to a wide range of measures from direct provision of big government resources to indirect stimulation

<sup>1</sup> UNCTAD. *Handbook of International Trade and Development Statistics 1969*, pp. 38-46; UN. *World Economic Survey 1969-1970*, p. 140.

of the export of private capital by granting tax privileges, foreign exchange regulations, organisation of special financial institutions, introduction of a system of guaranteeing investments and credits, and so on, which facilitated the flow of foreign capital into developing countries.

In the postwar period developed capitalist states became more interested in increasing capital exports, and their material, monetary and financial possibilities in this respect grew.

The expansion of production in developed capitalist countries was accompanied by the rapid increase of the absolute scale of the surplus product which required profitable application as new investments. Greater disproportionality within the economy of individual imperialist powers, the accelerated development of new and the slower growth of traditional industries increased the size of free capital. Alongside the growth of capital exports to developed capitalist states, opportunities were created for big investments in developing countries. The cumulative effect of these factors, coupled with the needs of developing countries themselves and the political and economic interests of developed capitalist states, brought about a substantial expansion of the export of capital to developing countries.

Net Exports of Financial Resources by Developed Capitalist States to Developing Countries and International Financial Institutions<sup>1</sup>

(million dollars)

	1956-60 annual average	1961-65 annual average	1966	1968	1970	1971
State resources	3,900	5,700	6,400	7,000	8,000	9,000
Private resources	2,800	2,800	4,000	6,400	7,100	8,200
Total	6,700	8,500	10,400	13,400	15,100	17,200

<sup>1</sup> Rounded out data according to: OECD. *Development Assistance. 1968 Review*, Paris, 1968, pp. 255-56; OECD. *Press Release*, Paris, July 5, 1972, p. 7.

A specific feature of the export of capital to developing countries, in contrast to export to developed countries, is the stable prevalence of state over private capital throughout the postwar period.

The wide attraction by monopoly capital of state financial resources for increasing external economic expansion has brought about essential changes in the international export of capital to former colonies and dependencies. Not only did the actual scale of the export of capital increase but new forms and new terms of providing it were devised. The direct participation of governments of developed capitalist states in the export of capital has helped the international bourgeoisie, to a certain extent, to adapt itself to the abolition of the former colonial rule.

The governments of developed capitalist states defending the interests of world capitalism are compelled to provide substantial material and financial resources to developing countries. Part of them is directly utilised for supporting foreign companies; another part, in the form of food deliveries, goes for consumption needs, facilitating an increase of the budget resources of a number of governments of developing countries, though a certain part goes for direct productive purposes. Data of bilateral governmental agreements show that the imperialist states are trying to restrict the building of enterprises in the production sphere.

In 1962-68 capital projects accounted for 30 per cent of all the appropriations under state loans and subsidies. Moreover, \$900-990 million were allotted annually between 1962 and 1968 for the financing of various projects of the productive infrastructure. These funds were used for building roads, irrigation installations, and expanding power capacity. Taking into account the insistent demands of developing countries, and the strengthening of their production co-operation with socialist states, the imperialist governments agreed to increase appropriations for the needs of industry from \$600 million to \$950 million annually during this period. The expenditures of governments of developed capitalist states for the sending of their specialists to developing countries and training national personnel were especially enlarged. Appropriations for these purposes were raised from \$750 million in 1962 to \$1,690 million in 1971, and took first place in all the exports of

state capital to Asian, African and Latin American countries.<sup>1</sup>

Conditions for new private profitable investment have been prepared in individual developing countries with the help of the export of state capital. Alongside measures of state stimulation, applied by governments of developed capitalist countries, this was one of the main reasons for the increased flow of private capital to developing countries in the second half of the 1960s. Other important reasons which influenced the scale of private investments were the growth of the demand in the world market for oil and some other mineral raw materials, the swift expansion of the home market in developing countries and the use of international financial institutions by private capital.

Among these reasons mention should also be made of a certain adaptation by private foreign capital to the new conditions in developing countries. This has been expressed in the tendency to set up mixed enterprises with the participation of national, both private and state, capital, a tendency which increased in recent years. Foreign private capital has made certain concessions to developing countries in the distribution of profit, the use of local personnel and other matters.

Worthy of attention is a feature in the export of private foreign capital which has become characteristic in recent years, namely, the swifter growth of credits as compared with direct investments. Short-term export credits have been increasing at a particularly fast pace. Thus, they rose from \$570 million in 1961 to \$2,690 million in 1971 or almost 5 times over in 10 years.<sup>2</sup> Their share in the total export of private capital to developing countries rose from 18 per cent to almost 33 per cent during these years. In contrast to the past, industrial construction is now financed more often with export credits.

This change in the composition of the export of private foreign capital is explained by the fact that foreign monopolies were afraid of serious changes in the investment climate. They sought not only to protect more reliably their

<sup>1</sup> Calculated according to: OECD. *The Flow of Financial Resources to Less Developed Countries, 1956-1963*, Paris, 1964, pp. 160-63; OECD. *Development Assistance, 1969 Review*, p. 313; OECD. *Press Release*, Paris, July 5, 1972, p. 7.

<sup>2</sup> OECD. *Press Release*, July 5, 1972, p. 7.

Geographical Distribution and Sectoral Composition of the Export of Direct Private Investments in Developing Countries in 1967-68

	Africa	Latin America	Middle East		Asia and Oceania		All developing countries	
			1967-68		1967-68		1967-68	
			million dollars	per cent	million dollars	per cent	million dollars	per cent
Oil <sup>2</sup>	403	64.1	55	5.4	191	87.2	113	28.5
Extractive <sup>3</sup>	54	8.6	150	14.6	1	—	42	10.6
Manufacturing	74	11.8	560	54.5	9	4.1	153	38.5
Other sectors	98	15.5	263	25.5	18	8.7	89	22.4
Total	629	100.0	1,028	100.0	219	100.0	397	100.0
							2,273	100.0

<sup>1</sup> Calculated according to OECD. *Development Assistance, 1970 Review*, Paris, 1970, p. 78.

<sup>2</sup> Including extraction, refining and marketing.

<sup>3</sup> Including the metallurgical industry.

investments, providing resources to national companies under guarantees by the governments of developing countries, but also to gain big profits in brief periods.

Notwithstanding the priority growth of credits, direct investments continue to hold a leading place in the export of private foreign capital. They, as hitherto, remain the foundation of the exports of private foreign capital and provide the economic basis for the developed capitalist states' influence on the economy of developing countries. The changes, however, have also affected direct investments of private foreign capital. These changes influenced first of all the sectoral composition of direct investments which in the past were channelled primarily into the mining industry, plantations and public utilities. In recent years new foreign direct investments have acquired a different composition. (See table on page 309.)

Seeking to preserve their influence in these countries and to create new spheres for the profitable investment of capital, foreign monopolies have lately been increasingly penetrating the manufacturing industry. Its importance has particularly risen in the direct private investments of the United States and Britain which are the biggest exporters of private capital. This sector accounted for 43 per cent of the new American investments in 1961-68 and 44 per cent of the British investments (exclusive of oil) in 1960-66.<sup>1</sup>

Notwithstanding the decrease in the share of developing countries in the total export of private capital from developed capitalist states, the former remain an important sphere for its application. According to our estimates, based on published statistics, regarded as underestimated by the compilers themselves, in 1967 the value of direct private foreign investments in Latin America, Asia and Africa amounted to almost \$50,000 million. Thus, private foreign capital continues to play an important part in the economy of Asian, African and Latin American countries. It holds important positions in the export of goods which are the main source of foreign exchange for many developing countries. The shortage of their own material and financial resources and also of technical know-how, on the one hand, and the strong positions of foreign capital in their economy,

<sup>1</sup> Survey of Current Business, 1961-1969; Board of Trade Journal, July 19, 1968, p. XII.

above all in its key sectors, on the other, greatly impede the struggle of these states against the grip of private foreign capital and compel their governments to manoeuvre and at times even to make new concessions to the monopolies.

At the same time international capital, adapting itself to the new historical conditions and making certain adjustments in its policy vis-à-vis developing countries, has been forced to make some concessions to the latter, and in a number of cases to assist in their industrialisation. But imperialism's main aims remain unchanged—the political subordination and the economic exploitation of the Asian, African and Latin American peoples. In his speech at the International Meeting of Communist and Workers' Parties, held in Moscow in 1969, Leonid Brezhnev noted that "even today, after the collapse of the foundations of imperialism's colonial system, the pillaging of the natural resources and the exploitation of the labour of the population of the weaker and less developed countries remains an inalienable feature of imperialism, although the imperialists are now compelled to act more craftily and disguise their pillage".<sup>1</sup>

It is only in recent years that the United Nations and other international organisations have begun systematically to collect statistics on the investment incomes of foreign capital. In estimating the profits, interest and dividends, exported from developing countries, indirect information and fragmentary data are often used. According to figures of the UNCTAD Secretariat, they rose from \$3,500 million in 1960 to \$8,500 million in 1970. On the whole the conclusion may be drawn that the receipts of financial resources from developed capitalist states by developing countries so far exceed the outflow of money from the latter in the form of profits, interest and dividends. According to UNCTAD estimates, the ratio of the exported incomes to the influx of foreign capital was 66 per cent in 1963 and 81 per cent in 1970.<sup>2</sup>

The favourable balance of financial flows in favour of developing countries is now maintained above all through subsidies given by the governments of imperialist powers.

<sup>1</sup> International Meeting of Communist and Workers' Parties, Moscow, 1969, Prague, 1969, p. 143.

<sup>2</sup> Handbook of International Trade and Development Statistics, 1972, New York, 1972, p. 221.

But in recent years in quite a few instances the exported incomes have exceeded the total influx of financial resources. This particularly stands out in the case of oil-producing countries. In 1965-67 Iran, Iraq, Saudi Arabia, Libya, Nigeria, the Dutch Antilles, Venezuela, and Trinidad and Tobago paid foreign investors 5.2 times more money than they themselves received. According to data of 20 Latin American countries (exclusive of oil producers), their investment payments in 1965-67 exceeded all receipts both private and state.<sup>1</sup>

Payments on private foreign investments, state and private loans and credits are reducing the resources which are already inadequate for accelerated industrial growth. The adverse consequences of exploitation by international capital are particularly felt in the case of industrialisation for a number of reasons. To begin with, the export of such large financial resources hits in the first place the accumulation fund and investments in industry. It has a smaller effect on the consumption fund.

What is very important is that the payment of investment incomes directly affects the reserves of foreign exchange, the most vulnerable spot of investments in industry. These payments restrict the possibility of importing machinery and equipment, raw and other materials needed for the advance of the national industry. That is why foreign exchange payments on foreign investments, loans and credits are increasingly becoming a serious impediment to industrialisation and one of the main reasons for the inadequate industrial growth rates of developing countries. This negative impact is further accentuated by the fact that foreign capital received by developing countries, as a rule, does not create additional sources of foreign exchange sufficient for the redemption of foreign loans and credits and the payment of profits, dividends and interest.

The activities of private foreign capital, which receives the biggest part of the profits, dividends and interest, are decisive in the outflow of resources from developing countries. At present the income exported by private capital from these states greatly exceeds the influx of capital. In 1967 the receipt of capital from private sources in Asian, African

and Latin American countries amounted to \$3,900 million, while the international monopolies withdrew from these countries \$5,100 million.<sup>1</sup> In other words, international capital financed its investments on account of the developing countries themselves and, moreover, received from them above \$1,000 million.

Another extremely adverse consequence of the activity of private foreign capital for the industrialisation of developing countries is the growing instability of their monetary and financial position. The export of profits, interest and dividends is mounting from year to year irrespective of the resources available in the respective countries. At the same time the influx of private foreign capital is not simply uneven but, as a rule, is reduced in periods when developing countries have great difficulties in their balance of payments. This has been the direct cause of the monetary and financial crisis in Brazil, Argentina, Turkey, Ghana and other Third World countries. Hence it is not surprising that these countries are taking measures to restrict the outflow of foreign capital.

Private foreign capital, in choosing a sphere of investment, is guided by its own interests—the gaining of economic advantages—and not by the economic growth needs of developing states. This is proved by the experience of countries which have given free or practically free access to private foreign capital, for example, Indonesia or Malaysia. Private foreign capital in Indonesia goes primarily into the production of oil and non-ferrous metals, the export of valuable timber and the banking system. These sectors account for the biggest part (about 90 per cent) of all new foreign investments amounting to \$1,000 million, approved by the Indonesian Government in February 1970.<sup>2</sup> At the same time foreign capital prefers to make no big investments in industries of vital importance for Indonesia's economy.

It should be emphasised that private foreign capital increasingly seeks to finance its activity on account of local money resources received in the developing countries themselves. The financing of foreign firms with the help of local

<sup>1</sup> UN. *International Flow of Long-Term Capital and Official Donations, 1963-1967*, New York, 1969, pp. 2, 90.

<sup>2</sup> *The Economist*, April 25, 1970, p. 66.

<sup>1</sup> UNCTAD. TD/B/C. 8/73, p. 13.

capital has become widespread in connection with the operations of American companies in Western Europe. A report on direct investments of third countries in the EEC, prepared by the Commission of the European Economic Community, points out that the share of European resources in American investments in Western Europe amounted to 29 per cent in 1959, in 1967 it was 47 per cent and later reached 50 per cent. Such a situation is highly alarming the European public which qualifies this process as "economic colonisation" of the Common Market.<sup>1</sup>

But developing countries have so far paid little attention to this phenomenon. Western economists, above all in the United States, assert that the widespread practice of financing foreign companies with local resources takes place in Western Europe and does not extend to developing countries. The experience of these states, however, refutes these assertions. Not only are the main investments financed with local resources, for which purpose reinvestments are utilised, but also the working capital of foreign companies. This is revealed in a special document prepared by the director of the Statistical Board of the National Economic Council of the Philippines. Proceeding from a financial analysis of the activity of 108 manufacturing enterprises, which account for more than 70 per cent of all US investments, the author arrives at the conclusion that between 1956 and 1965 the working capital of American companies rose up to \$490 million. But 84 per cent consisted of credits obtained locally and only 16 per cent were received from the United States.<sup>2</sup>

These data show that here US companies operate with "someone else's money" even to a greater extent than in Western Europe. But what is "someone else's money" for the American monopolies is "their own money" for developing countries, and this deprives them of the badly needed resources for building up their own industry.

Lastly, foreign companies, to subordinate to their own interests the process of creating a national economy in developing countries, have begun to utilise on a wider scale so-called technical agreements which are closely linked with

the export of private foreign capital. Agreements are concluded with local firms for the transfer of technological know-how in the form of various patents and technical specifications and sending foreign specialists. The number of technical agreements is steadily increasing and covering ever new countries. In India they increased from 796 in 1956-60 to 1,444 in 1961-65. Enterprises which utilise such agreements contributed in 1966/67 about one-fifth of the country's entire industrial output.<sup>1</sup>

These technical agreements, facilitating to a certain extent a rise in the technological level of some branches of the national industry, are creating new additional difficulties for the industrial advance of developing countries. To begin with, technical agreements with foreign companies restrain local research work. The insignificant appropriations for science and technology find their way into the safes of foreign companies and research centres located in different capitalist states. Thereby, although the resources of developing countries are spent, their technical dependence on developed capitalist states, far from decreasing, grows even more.

Big harm on developing countries is also inflicted by the fact that technical agreements restrain their exports of manufactured goods. Almost half of the technical agreements of foreign companies with Indian firms contain reservations restricting the export of the respective goods.<sup>2</sup> This results in that the share of exports in the output of Indian firms which utilise technical specifications of developed capitalist states was reduced from 5.5 per cent in 1960-61 to 3.9 per cent in 1966-67.<sup>3</sup> As a result the developing countries have smaller access to the world markets for the most advantageous and dynamic goods provided by the national manufacturing industry.

Thus, the experience of different developing countries over many years shows that a simplified approach to the increased flow of private foreign capital offers insufficient grounds for revising the attitude to its role in their economy.

In determining the attitude of developing countries to

<sup>1</sup> Za rubezhom No. 34, 1970, p. 18.

<sup>2</sup> Far Eastern Economic Review No. 47, 1968, p. 21.

<sup>1</sup> *Economic and Political Weekly*, January 25, 1969, p. 238.

<sup>2</sup> *The Economist*, June 14, 1969, p. 71.

<sup>3</sup> *Far East Trade and Development*, February 1969, p. 97.

private foreign capital it is necessary to consider all the main aspects of its activity. Private foreign capital must not hold key positions in the economy which would enable it to interfere in a country's home and foreign policy. The profits it obtains must be strictly controlled and limited to definite rational bounds. The entire activity of foreign capital must be subordinated to solving the basic problems of developing countries—to increase their own accumulations, consolidate the positions of the public sector, ease foreign exchange difficulties, train national personnel, introduce modern technological achievements and expand the exports of both traditional and especially non-traditional goods. In this connection worthy of attention is the idea of setting up a united front of developing states vis-à-vis private foreign capital and the elaboration of respective legislation and its application by independent countries.

Loans and credits by governments of developed capitalist states hold a special place in exploiting developing countries. We pointed out earlier that the quest for profits is not the only and not always the chief motive in their external economic policy. But even in providing state loans they gain big economic advantages. The repayment of interest alone compensates more than one-fourth of the granted loans. Many developing countries have already reached a point when they pay more on state loans than they receive. Among them are Argentina, Mexico, Iran and the Philippines. For some countries this situation has continued for several years.<sup>1</sup>

One of the important consequences of the postwar monetary and financial expansion of the developed capitalist states, which acts as a tangible factor restricting the industrialisation possibilities of developing countries, is the growth of their external debt. The fullest data about these debts are given in publications of the International Bank for Reconstruction and Development. The volume of state and state-guaranteed indebtedness of these countries rose almost 5.5 times between 1955 and the beginning of 1970—from

<sup>1</sup> OECD, *Geographical Distribution of Financial Flows to Less Developed Countries, 1961-1964*, Paris, 1966, pp. 103, 117, 131, 159 (Tables 33, 40, 47, 61).

\$10,000 million to about \$55,000 million.<sup>1</sup> Moreover, the debt rose at a growing pace. At the end of the 1950s it increased by 11.6 per cent annually, and in the second half of the 1960s, by 12.8 per cent.

The growth of the foreign debt has also led to the rapid increase in the sums needed for servicing it—redemption of the principal and payment of interest. Calculations of UNCTAD experts show that in 1970 the annual sum of payments amounted to \$5,500 million as compared with \$2,000 million in 1960.<sup>2</sup>

As a result the relation of the sum of payments to the value of the exports of the developing countries changed from 7 per cent in 1960 to 10 per cent in 1970.<sup>3</sup> If we also take into account the foreign debt not counted by the IBRD, these payments will be about 5 and 16 per cent of the export receipts respectively. This situation has had an extremely adverse effect on the foreign exchange position of many countries and compelled them substantially to cut imports of goods for industrial purpose.

Foreign capital is thus exerting a dual impact on the industrialisation of developing states. The inflow of material and financial resources from developed capitalist states accelerates industrial construction to a certain extent. At the same time foreign capital remains one of the chief stumbling blocks to eliminating the socio-economic backwardness of these countries.

<sup>1</sup> IBRD and IDA, *Annual Report 1965-1966*, Washington, 1966, p. 33; IBRD and IDA, *Annual Report 1970*, Washington, 1970, p. 71; OECD, *Development Assistance, 1970 Review*, p. 50.

<sup>2</sup> *Handbook of International Trade and Development Statistics, 1972*, p. 221.

<sup>3</sup> *Handbook of International Trade and Development Statistics, 1972*; UN, *Monthly Bulletin of Statistics*, May 1971.

## TRAINING OF INDUSTRIAL PERSONNEL

An efficacious industrialisation policy is impossible without skilled personnel. The pace of industrial growth depends on the availability of skill and experience of the personnel. The Marxist proposition that "man himself is the basis of his material production, as of any other production that he carries on"<sup>1</sup> is confirmed at every stage of the strenuous effort to build an industrial basis of economic progress and independence.

The experience of world economic development, especially the one accumulated by socialist states, clearly shows that skilled personnel, their vocational and above all scientific and technical knowledge, production and administrative activity are the cardinal factor of social reproduction which largely determines the course and prospects of industrialisation.

The example of economically developed states and the impressive achievements of the Soviet Union in training personnel, especially in what were backward areas in the past, and the objective need for independent progress have created in developing countries, for all the complexities and contradictions of the political, class situations, a favourable "climate" for tackling the personnel problem. It is held in African countries that "further progress and growth depended on men and women capable of applying vision, knowledge and concepts to their productive work".<sup>2</sup> It was pointed out at the UN symposium on the industrialisation of African countries held in Cairo in January 1966 that "the range and quality of human skills is a major factor for progress".

<sup>1</sup> Karl Marx, *Theories of Surplus-Value*, Moscow, 1969, p. 288.  
<sup>2</sup> *African World*, London, October 1963, p. 17.

A representative of the UN Economic Commission for Africa called the shortage of skilled labour and technical know-how "a principal reason hampering a rapid economic development of the continent".<sup>1</sup> In the opinion of experts of the UN Economic Commission for Latin America, the shortage of personnel "is the cause of huge losses in labour and capital productivity which probably amount to several times the cost of training the corresponding number of persons at the appropriate level".<sup>2</sup>

The objective conditions of developing countries, as demonstrated by these evaluations and judgments, increasingly put to the fore questions of improvement and use of their manpower resources, particularly the task of training skilled personnel for industrialisation. Experts of UNIDO and ILO point out that "the basic problem in the developing countries is mainly one of deploying existing skills effectively and of producing new and specialised skills as soon as possible and at a minimum cost".<sup>3</sup>

The rise and exacerbation of this urgent problem has been largely caused by the fact that under colonial rule the training of skilled personnel was prevented by the economic, above all industrial, underdevelopment and backwardness, the limited spread of education, the archaic organisation of the educational system and the absence of organised vocational training. Even the extremely limited number of administrative and technical personnel without which it was impossible to operate the backward economy was "exported" to small and big countries of the colonial periphery by imperialism from its centres. This situation was preserved and consolidated until national liberation and the entry of the sovereign states into the phase of struggle for economic independence and industrialisation.

#### 1. SUBSTANCE OF THE PROBLEM AND ITS MAIN ASPECTS

The industrial processes which began in developing countries faced them with the objective need to train their own personnel. And the farther and deeper these processes, the

<sup>1</sup> *The Egyptian Gazette*, February 3, 1966, p. 4.

<sup>2</sup> UN, *Economic Bulletin for Latin America*, October 1966, p. 35.

<sup>3</sup> UNIDO, *Issues and Problems in Manpower Development for Industrialization*, ID/Conf. 1/30, p. 5.

more pressing is the difficult problem of national personnel, above all the question of training their own technicians, executives and other specialists and skilled workers.

The importance and urgency of the task are predetermined by the fact that practically all the main questions of independent industrial development—whether the advance of industry or agriculture, the building of the infrastructure, setting up of a managerial machinery or organisation of national enterprise—cannot be solved in the interest of the countries themselves without their own skilled personnel. The need for training them is dictated by economic, social and other factors, including nationalist tendencies. Availability of national personnel is an expression of sovereignty and independence of socio-economic progress from imperialism and is a requisite for the shaping of different social relations from those of the colonial period and of their future evolution. It is clear that different classes and social strata take a different approach to the personnel problem, seeking solutions that would be to their advantage rather than in the common interests of the nation. One of the most acute issues is the degree of participation of the working people in the programmes of training of personnel, including engineers, technicians and executives, which the propertied classes are trying to prevent.

Among the objective factors which complicate the personnel problem mention should be made of the rapid growth of the population in less developed regions characteristic of our time, the ever increasing pace of scientific and technological progress and the steadily mounting volume of human knowledge. In these conditions developing countries face, on the one hand, the need to extend education, especially vocational, to a constantly growing number of people, and, on the other, to pass on to them an ever greater volume of knowledge.

In present-day conditions of the scientific and technological revolution the importance of increasing labour productivity by raising, directly or indirectly, professional knowledge and skills is steadily growing. It is a fact that this alone can bring about a rise in output of up to 30 per cent.<sup>1</sup>

<sup>1</sup> UNIDO, ID/Conf. 1/30, p. 3. Surveys made in the USSR in the 1920s showed that if workers only learned how to read and write as a result of studying for one year their labour productivity rose

The shortage of national personnel and the unbalanced composition of personnel by professions are turning into a brake on industrialisation. But the training of personnel for economically backward countries is an intricate and difficult process; it demands more time and effort than, say, obtaining a loan and building a factory or an electric power station. UN experts point out that "technology can be imported and industries can be erected, but skills to maintain and use such facilities cannot be imported, at least in the required numbers necessary to sustain industry".<sup>1</sup> An independent industrialised economy cannot be built and operated by imported manpower, by foreign engineering, technical and managerial personnel. It is industrialisation as no other socio-economic process that has faced the developing states with the urgent task of training national personnel, chiefly through self-help.

The scope and novelty of this task has been clearly displayed in conditions of many backward countries because all of them felt very keenly the lack of skilled manpower of practically all categories—from trained workers to high-level personnel. For example, in Tanzania prior to the attainment of independence, of the 315,252 employed Africans, two-thirds were unskilled.<sup>2</sup> In 1961, Africans in this country were capable of filling less than one-eighth of all the responsible posts in the economy and the government machine.<sup>3</sup> In this young African state barely 0.3 per cent of the total labour force did work which required more or less considerable vocational training.<sup>4</sup>

annually by up to 30 per cent on the average, while in the case of illiterate workers it increased by 12-16 per cent (see *Voprosy ekonomiki* No. 5, 1966, p. 181). It has been calculated, for example, that in Canada between 1911 and 1961, 25 per cent of the growth in labour productivity and 30 per cent of the increase in average wages per employed person was a result of the higher educational level attained during these years. In the United States where the educational level is higher, the respective figures were 50 and 60 per cent (G. W. Bertram, "The Contribution of Education to Economic Growth"—*Economic Council, Canada, Staff Study No. 12*, 1966).

<sup>1</sup> UNIDO, *Issues and Problems in Manpower Development for Industrialization*, ID/Conf. 1/30, p. 4.

<sup>2</sup> Alexander MacDonald, *Tanzania: Young Nation in a Hurry*, New York, 1966, p. 65.

<sup>3</sup> UN, *1963 Report on the World Social Situation*, New York, 1963, p. 182.

<sup>4</sup> UNESCO IIEP, *Manpower Aspects of Educational Planning. Problems of the Future*, Paris, 1968, p. 79.

The Republic of Guinea at the time it was founded (1958) had about 40 persons with a higher education in all.<sup>1</sup> The situation was exacerbated by the fact that with the abolition of the colonial regime many foreign workers, engineers and other specialists left the country.

On gaining independence, India found herself in a specific situation with "a highly unbalanced education system, with too many university students and too little primary and technical education".<sup>2</sup> Professor P. C. Mahalanobis, well-known Indian scientist, describing this system, stressed: "India is backward in education generally.... Only a very small proportion receive vocational or professional training. A very large number receive what is called general education which does not make them fit to undertake any particular productive work.... The greatest weakness in India is the lack of an organic relation between the system of education and national needs for economic development."<sup>3</sup> To illustrate this characteristic let us recall that in this vast country several educational establishments graduated annually a little more than 50 chemists and a few dozens of mining and metallurgical engineers. A census of national technical personnel conducted in 1949-51 established that India had only 1,663 electrical engineers, 1,973 mechanics, 362 chemists, 137 mining engineers, and so on.<sup>4</sup> Most of them had received or improved their education in Britain, the United States and other Western countries and, in fact, were unfamiliar with the conditions and needs of the Indian economy.

Developing countries have an exceedingly low professional and technical level of the labour force because of their backward system of education, concentration on the humanities, lack of balance and extremely limited scale of training, industrial personnel.

<sup>1</sup> See D. K. Ponomarev, *Prosveshcheniye v kolonialnoi Tropicheskoi Afrike, 1945-1960* (Education in Colonial Tropical Africa), Moscow, 1963, p. 151.

<sup>2</sup> *The Eastern Economist* No. 6, August 10, 1962, p. 240.

<sup>3</sup> National Institute of Science of India. *Anniversary Address by the President*, January 20, 1959.

<sup>4</sup> *National Register of Scientific and Technical Personnel in India*, Vol. I, Parts I-III, New Delhi, 1950-52; Ministry of Education and Scientific Research, Government of India, *Ten Years of Freedom*, Delhi, 1957, p. 17.

Skilled Workers in Developing Asian Countries<sup>1</sup>

Country	Year	Share in total labour force, per cent
India	1951	1.6
Indonesia	1958	1.1
Pakistan	1951	1.0
Philippines	1958	2.3
Thailand	1947	1.0

The insignificant percentage of skilled labour is also demonstrated by data for Latin America. In the mid-1960s barely one per cent of the gainfully occupied population could be regarded as strictly technical personnel in 20 countries of this region. Among industrial workers (including the crafts) less than 10 per cent were skilled and about two-thirds had no vocational training at all; in agriculture, untrained labour comprised almost 80 per cent of the total engaged in this sector.<sup>2</sup>

Thus, the acute shortage of skilled personnel and the sharp disproportions in the composition of this limited contingent of the labour force are characteristic of the initial level from which most of these countries had to tackle the personnel problem. What is its content as applied to the industrialisation needs of these countries?

Let us note first of all that this pressing problem makes itself felt in different ways. Most small countries, especially in Asia and Africa, have no such personnel at all. A few of them have a bare minimum of skilled manpower but mainly for the existing backward pattern of production. In a number of Latin American countries, India and other relatively developed states, in addition to increasing the training of technical personnel, particular significance attaches to raising the quality of their training. The great diversity of social, economic and political conditions, characteristic of the developing world, the state and needs of industrialisation in-

<sup>1</sup> *International Labour Review* No. 4, Geneva, October 1962, p. 365. Let us note for comparison that this indicator was 80 per cent in the United States and 63 per cent in Britain in the 1950s (*ibid.*).

<sup>2</sup> *UN. Economic Bulletin for Latin America*, Vol. XI, No. 2, October 1966, p. 2.

introduce great diversity in the quantitative and qualitative aspects of the training and shaping of the necessary personnel. Hence the essential differences in personnel needs as regards numbers, specialisation and level of skill in various countries. A determining part is played by the general policy of industrialisation, particularly the planned sectoral structure. Other conditions being equal, the development of producer goods industries implies higher qualitative demands on the training of personnel and their employment.

All these specific features are also intensified by the fact that the training of industrial personnel is not only an economic and purely social but also a comprehensive problem which includes many ideological, political, psychological and other elements. Their intricate interdependence and constant interaction have to be thoroughly considered and co-ordinated if these countries are to solve the personnel problem. It should be stressed that the problem of training personnel for the economy as a whole and for industrialisation purposes in particular is a task which for its content is much more involved and deeper than the mere provision of a minimum number of specialists who would satisfy the primary needs of development.

Just as industrialisation, the training of personnel is a multi-stage process; just as industrial development cannot be confined to the building up of one sector, for example, manufacturing, the training of personnel cannot be limited to some narrow process or orientation on one sector. This is seen from the fact that skilled personnel engaged in industrialisation has to cope with the following functions and tasks:

- to bring out and utilise the raw material, power, labour and financial resources;
- determine the methods, trend, scale and rates of industrialisation;
- organise programming and planning of industrial development on a national, regional and sub-regional scale, by sectors and individual enterprises;
- design, build and commission enterprises;
- operate, service and manage enterprises;
- organise profitable production;
- supply production with raw materials and semi-manufactures;
- organise the sale of output;

organise accounting and control at all stages of industrialisation.

All this represents a vast sphere of practical activity for different categories of personnel in the process of industrialisation. This also determines the level of the main demands to which this personnel must measure up in present-day conditions. For trained workers this means mastery of modern methods of construction and operation, mastery of industrial skills. As regards top- and middle-level technical and managerial personnel this implies thorough technical and economic training and experience in applying their knowledge in technical and managerial work and control. Scientific and technological progress constantly dictates an advance in the cultural and technical level of the industrial personnel of developing countries. The increase in the capacity of enterprises, greater sophistication of the equipment and production facilities and the management systems presuppose an advance in the skill of personnel of different occupations, the professional demands made on them are becoming more complex and specific.

The achievement of all these objectives is to a decisive extent determined not only by the quantitative but also the qualitative composition of their personnel, their attitude to work, by the relations of production, the interconnection of their material and moral interests, and so on. Close co-ordination of the techno-economic and social aspects of industrial labour is particularly important in conditions of developing countries. And this presupposes a socio-psychological transformation of the human resources from which industrial personnel are trained. To achieve this aim it is necessary to wrest the masses from the grip of former notions, outmoded views and prejudices and to lay the basis for what may be called the "modernisation of people". One has to agree with the opinion of Guy Hunter, a British scholar, who holds that what the backward countries need is to create a new society, "new in language, custom, skills, political and social relationships".<sup>1</sup>

The needs of development, including industrialisation, face these countries with the very intricate task of transforming man himself on a vast scale. Jawaharlal Nehru rightly point-

<sup>1</sup> G. Hunter, *Education for a Developing Region. A Study in East Africa*, London, 1963, p. IX.

ed out that ultimately the quality of people decides everything; it is man who is ultimately the producer of the wealth of the nation and prime mover of the progress of its culture.<sup>1</sup>

One of the most essential aspects of this task is to educate national personnel in the spirit of patriotism, defence of the national interests, honesty and devotion to their country. Only by creating an appropriate social climate and carrying out related measures, specifically active propaganda, can developing countries expect to get rid of such evils as corruption, bureaucracy and red tape. A close co-ordination of vocational training with moral education is a major aspect of training industrial personnel.

A number of chief elements stands out in the quantitative side of the problem. According to UN experts, to implement their industrial programmes developing countries of Asia, Africa and Latin America have to train about 400,000 engineers and scientists and 1,000,000 technicians by 1975.<sup>2</sup> The preponderance of traditional sectors in the economy and the need for their substantial reconstruction, specifically the manufacture of consumer goods and, to a certain extent, agriculture, generate the greatest demand for skilled workers, technicians and managerial personnel. On the other hand, the fundamentally new enterprises, sectors, and technological processes and management methods which are brought into developing countries by industrialisation and the impact of the scientific and technological revolution are creating a demand for personnel which is comparatively small in numbers but is qualitatively of a much higher level, and new for these countries.

A certain idea of the needed skilled personnel for a number of industries in developing countries for the period between 1965 and 1975 is given by calculations of ILO experts (see table on page 327).

These data show that the forecast is strictly preliminary; it proceeds from the prospect of quite limited industrial development without the accelerated building up of heavy industries. The need for personnel is relatively greater in Asian countries, especially in the textile and pulp and paper

Skill Requirements for Industrialisation<sup>1</sup>  
(thousands)

Region	Industries	Total	of which	
			engineers, technicians and adminis- trative staff	skilled workers
Asia	Fertiliser	...	...	...
	Cement	77-86	11.8-14.9	51.9-62.2
	Iron and steel	14.9-87.4	2.4-18	9.1-33.2
	Textile	314-474	21.6-32.6	261.2-394.1
	Pulp and paper	463	140.4	322.6
		<i>Total</i>	850-1,100	175-200
Africa	Fertiliser	26.5	2.5	4.7
	Cement	3.1-3.4	0.5-0.6	2.1-2.5
	Iron and steel	10.9-63.3	1.8-13.1	6.6-24.0
	Textile	214.3	14.6	178.3
	Pulp and paper	41.8	7.4	30.3
		<i>Total</i>	300-350	27-39
Latin Ameri- ca	Fertiliser	10.2-21.7	1-2	1.8-3.9
	Cement	...	...	...
	Iron and steel	54.1-314.3	8.9-64.8	32.7-119.4
	Textile	548.6	37.9	456
	Pulp and paper	...	...	...
		<i>Total</i>	600-900	50-100
				500-580

<sup>1</sup> See *AICC Economic Review*, August 15, 1958.

<sup>2</sup> UN, *Training of National Technical Personnel for Accelerated Industrialization of Developing Countries* (E/3901/Rev. I, Add. 1).

<sup>1</sup> UNIDO, *Skill Requirements for Industrialization*, ID/Conf. 1/31, p. 46.

industries. In Africa, the needs are much smaller. Moreover, because of the low level of African industry the ratio of engineering, technical and administrative personnel to trained workers is different from that in Asia—considerably less of the former and more of the latter. In Latin America, the personnel needs are determined by a relatively higher general level of industrialisation.

What then is the composition of the personnel for industrialisation? In broad terms the skilled personnel needed for the emerging industrial system can be divided into the following main categories: 1) organisers and entrepreneurs in the public and private sectors; 2) top- and middle-level managerial personnel for enterprises of different capacities; 3) supervisors (controllers) and foremen; 4) professionals: a) engineers, technicians and scientific workers in the natural, technical and social sciences; b) technical workers in natural science, technical and other fields; 5) skilled workers and other employees; 6) workers of narrow specialised skills; 7) unskilled workers.

The requirements in industrial personnel of the indicated categories for the immediate and more distant periods could be determined in principle on the basis of evaluations and forecasts concerning the industrialisation process, shifts in production and technology, changes in labour productivity which are incorporated in national development plans, if such plans contain evaluations of the personnel requirements and measures for meeting them. But these countries, as a rule, have no comprehensive development plans and consequently lack a major initial basis for forecasting the requirements in industrial personnel and their training.

Although the ascertainment of requirements in industrial personnel is one of the most difficult and intricate aspects of the problem, the first attempts along these lines have been made and the results offer certain guidelines.

Examination of the substance of the personnel problem and its main parameters shows that skilled personnel for industrialisation is a product of development which, as it were, is located at the junction of the productive and non-productive spheres, being basically both an economic and social process. The trend of this phenomenon and its significance for industrialisation naturally depend on the major, initial stage, which is represented by the very process of training industrial personnel.

## 2. TENDENCIES AND DIFFICULTIES OF PERSONNEL TRAINING

The training of skilled personnel for industrialisation presupposes initial instruction and a kind of "polishing it up" in the course of practical work. The correlation of the role and importance of these two stages in training depend on many factors and circumstances. In countries with a general low level of production, especially in industry, the initial, instructional stage is the most important at present. At this stage these countries have to solve a whole range of interconnected problems.

The development of education and the general school system opens up the possibility of training national personnel for industrialisation. But this is only the first step to provide for a general education, familiarisation with technology, the moulding of the personality, the gaining of general information and an idea of the possibility of applying one's energies, and so on. The subsequent specialised education is called upon to ensure the acquisition of special knowledge and skill. There are the following interconnected national channels of training skilled personnel:

- a) general education;
- b) specialised training at technical and other centres, schools, colleges and universities;
- c) on-the-job training.

The need for industrialisation in the specific social conditions of developing countries, still fettered by survivals of the old systems, imparts special significance to general education in ensuring the training of industrial personnel. This stage serves as the most important point of departure. "General education," it is pointed out by experts of UNIDO and ILO, "besides enlarging the individual's horizons and preparing him for life in society and for citizenship, also is a nearly indispensable foundation for all modern industrial occupations."<sup>1</sup>

But the real picture is such that the scale, nature, content and orientation of general education of young states so far do not correspond to the needs of training national personnel in general and for industrialisation in particular.<sup>2</sup> The total

<sup>1</sup> UNIDO. *Issues and Problems in Manpower Development for Industrialization*, ID/Conf. 1/30, p. 21.

<sup>2</sup> For the general tendencies of education in these countries see *Mirovaya ekonomika i mezhdunarodniye otnosheniya* No. 6, 1969, pp. 117-29.

number of pupils in all educational establishments of developing states rose from 74.7 million in 1950 to 219.6 million in 1967; in Asia, the number increased by 190 per cent, in Africa by 280 per cent and Latin America by 170 per cent.<sup>1</sup>

There is no doubt that education is spreading faster today than in the colonial period. But with the huge size of the population and its high rate of increase large human resources are still beyond the pale of education. Referring to the situation in 14 African French-speaking countries, the Senegalese newspaper *Dakar Matin* pointed out that the average elementary school attendance was only 29 per cent. In Latin America more than 15 million children do not attend school; of the 26 million children who enter elementary schools only 5 per cent finish them. One of the main reasons for this situation is the inaccessibility of education to the masses; the low living standard prevents the parents from paying for the tuition of their children.

The incomplete coverage of children by school education and the big proportion of dropouts lead to a slowing down in the increase of the literate population and limit the manpower resources suitable for training as industrial personnel. Alongside the spread of school education among children, developing countries are working to wipe out illiteracy among adults. Official statistics show that at the beginning of the 1960s the number of literate persons in the annual increase of the adult population (15 years and older) was 90.9 per cent in South Asia and 30.5 per cent in Africa.<sup>2</sup>

Illiteracy is being eliminated on quite a large scale in a number of countries, for example, in Algeria. In Burma several hundred thousand people learned the three R's as a result of the regular campaigns to wipe out illiteracy. Nevertheless the extremely inadequate development of adult education and training is typical of developing countries. The limited organisation of adult education and the small resources allotted for it are not the only reasons. The need to earn their daily bread makes it impossible for many adults to study.

Statistics for the 1960s shows that among the adult population (15 years and older) the percentage of illiterates was

<sup>1</sup> UNESCO. *Statistical Yearbook 1969*, Paris, 1970, pp. 52-53.

<sup>2</sup> UNESCO. *Statistical Yearbook 1965*, Paris, 1966, pp. 82-83.

as follows: Africa, 81.5; and South and Southeast Asia, 67.8.<sup>1</sup> According to data of the UN Economic Commission for Latin America, 50 million adults in countries of that region are unable to read and write. It should be emphasised that in different countries the concept of literacy is interpreted in different ways, while the criteria of literacy are substantially raised in conditions of the scientific and technological revolution. As a result modern knowledge is inaccessible to the overwhelming part of the population—much bigger than reflected by statistics—and it cannot be utilised as a source for training personnel.

Teaching the ABC and an elementary education are the first step in the long process of training personnel. In this process the role of general education rises at the stage of secondary school.

Official statistics points to an increase in the number of secondary school pupils in developing countries. Between 1950 and 1967 their number increased from 5.3 million to 22.7 million in Asia, from 0.5 million to 3.8 million in Africa and from 1.7 million to 8.4 million in Latin America.<sup>2</sup> But on the whole secondary education is still inadequate. Relative predilection for wiping out illiteracy among adults, a shortage of money and a certain underestimation of the secondary school resulted in that the educational systems suffered from a structural imbalance because a considerable part of the resources was spent for expanding elementary education.<sup>3</sup>

Higher education is advancing in most developing countries: the number of students in universities and institutes rose in Asia from 700,000 to 3,200,000 between 1950 and 1967; in Africa from 40,000 to 300,000, and in Latin America from 300,000 to 1,100,000.<sup>4</sup> What these summary data mean is illustrated in the case of Africa where the total number of students from 1950 to the early 1960s increased 9-10 times in Ghana, Nigeria, Senegal and the Sudan; 3-5 times and more in the Arab Republic of Egypt, Morocco, Malagasy Republic, Ivory Coast and Ethiopia; from 50 to 100 per cent in Sierra Leone, Tunisia, Uganda,

<sup>1</sup> UNESCO. *Statistical Yearbook 1968*, Paris, 1969, pp. 30-31.

<sup>2</sup> Ibid, pp. 52-55.

<sup>3</sup> See UN. *Government Expenditure on Social Services in Selected African Countries*, E/CN.14/SDP/6, p. 38.

<sup>4</sup> UNESCO. *Statistical Yearbook 1969*, pp. 52-55.

and so on. The biggest contingent, more than 100,000 students, was in the ARE.<sup>1</sup> Guinea has now two higher educational institutions, while formerly there were none. Nevertheless, higher education, as a rule, remains the quantitatively least developed link of the educational system. It should be noted that the striving to receive a higher education often becomes an obsession with young people in these countries who hope to gain access to highly paid posts in private companies which often appoint university graduates to managerial posts solely for prestigious considerations. It is also characteristic that difficulties in gaining a higher education, owing in part to inadequate preceding training, result in that about half of the students drop out. Increasing social contradictions create a serious problem for universities, institutes and secondary schools. These types of education, especially higher, remain almost the exclusive privilege of the propertied strata and are almost inaccessible to young people from the "lower" strata.

With the advance of a general education at different levels, developing countries are also trying to organise vocational training. The building of industrial, power, transport and other projects in these states is utilised for the training of skilled workers. A highly efficient system of apprenticeship which combines training on the job with instruction in schools and centres has been organised in a number of states in Africa (Egypt) and Asia (India, Malaysia and the Philippines).<sup>2</sup> India, Pakistan, Nigeria, Guinea, Uganda, Zambia, Egypt, Tanzania and other countries are also setting up for these purposes vocational training centres, vocational schools and courses both at factories and at educational establishments in the process of industrialisation.

To train middle- and high-level industrial personnel developing states are for the first time organising modern educational establishments, adapting for this purpose the existing universities and colleges, which concentrate on the humanities.

India has opened a number of institutions fundamentally new in the country, for example, the Technological Institute in Bombay, and the Metallurgical Institute in Ranchi.

<sup>1</sup> UNESCO. *Statistical Yearbook 1964*, Paris, 1965, pp. 218-21.

<sup>2</sup> UNIDO. *Education and Training Programmes for Industrialisation*, ID/Conf. 1/33, p. 9.

More than thirty universities and institutes, a number of technical schools and special schools have been opened in countries of Tropical Africa in recent years. The first contingent of students finished the Conakry Polytechnical Institute in Guinea in the spring of 1968 and in 1973 the Republic had 4,000 students.

Six technical colleges and lyceums were set up in the capital of the People's Republic of Congo and in Pointe Noire, and a technical lyceum in Fort Rousset; technical personnel are also trained at 28 vocational centres. The government programme in Libya provides for the setting up of three colleges—agricultural, teachers' training and engineering. A number of colleges and vocational centres are being set up in Upper Volta. The first secondary technical communications school was opened in the Republic of Chad. The training of administrative personnel is arranged to meet the needs of the state: educational establishments of this type are functioning and are organised in a number of countries, for example, Morocco and Upper Volta.

In most developing states changes in this sphere are still in the initial stage. Obstacles and difficulties in organising and improving vocational training are even greater than in general education. There is a shortage of modern educational establishments, facilities, equipment, textbooks, curricula, etc.

Special importance attaches to the provision of educational establishments with competent instructors, the shortage of which affects the entire sphere of education and training.

The situation in the elementary school is exceedingly difficult. In some African countries or their regions "half of the elementary school teachers have no training whatsoever".<sup>1</sup> A similar situation prevails in many Asian and Latin American countries.

The secondary school suffers from a very acute lack of teachers and, moreover, there is a noticeable prevalence of foreigners among them, for example, in educational establishments in a number of former French and British colonies in Africa.<sup>2</sup> The shortage of teachers in the natural and

<sup>1</sup> See UNESCO. *Africa Prospect. Progress in Education*, Paris, 1966, p. 19.

<sup>2</sup> Ibid.

technical sciences is increasing because the number of trained teachers is very inadequate. For example, in all African countries only one-third of the students specialise in the natural sciences, medicine, agriculture and engineering.<sup>1</sup> One of the reasons is the lack of stimuli to acquiring technical professions for which remuneration is often lower as compared with that of office employees; another reason is difficulty in getting work, and so on.

Some practical steps are taken to ease the shortage of teachers. For example, in Mali the Teachers' Training Institute in Bamako became the first higher educational institution. By mid-1960s, 16 colleges designed to graduate annually 1,500 secondary school teachers had been opened in African countries.<sup>2</sup> Measures of this kind are taken in Asian countries, especially India, Pakistan, Burma and Sri Lanka, and in a number of Latin American states.

The process of instruction in developing countries, as a rule, is obsolete and often divorced from the practical knowledge. Guy Hunter, a British researcher, characterising school education in East African countries, notes: "Too much British history and British botany, too much learning in the class room and too little doing in the field."<sup>3</sup> At an international symposium on education in Paris A. C. Mwingira, a representative of Tanzania, spoke with bitterness: "We, in independent developing countries, still remain loyal to the colonial system of education."<sup>4</sup> The adverse consequences of the existing trend in education were noted, for example, by the authors of India's First Five-Year Plan (1951-55) who rightly held that this deprived school graduates of the necessary practical skills and initiative, confined them to a career of civil servants or employees of private offices; the sole alternative to that could be a university which again offered in the main a strictly humanitarian education.<sup>5</sup>

The scale, level and orientation of professional training by far do not correspond to the needs of industrialisation.

<sup>1</sup> *Bulletin of the Atomic Scientists*, Vol. XXII, No. 2, Chicago, 1966, p. 46.

<sup>2</sup> UNESCO. *Africa Prospect. Progress in Education*, pp. 19-20.

<sup>3</sup> G. Hunter, op. cit., p. 7.

<sup>4</sup> UNESCO IIEP. *Manpower Aspects of Educational Planning. Problems of the Future*, p. 144.

<sup>5</sup> *Commerce*, April 17, 1965, p. 680.

One of the most painful tasks in this sphere is to eliminate or at least mitigate the sharp disproportion between the contingents of top- and middle-level personnel, caused by the insufficient training of the latter. The existing and newly organised network of educational establishments so far does not help to solve the problem and the number of engineers, as before, continues to outstrip the number of middle-level technicians.

As the training of industrial personnel spreads, the contradictions between the public and private sectors of the economy grow increasingly sharper. The private sector is beginning to utilise more actively the fruits of government effort in training personnel. In many developing countries there are quite a few instances of private—national and foreign—companies luring away the most competent specialists who studied in state educational establishments and gained practical experience at state-owned industrial and other enterprises, research establishments, etc.

The training of industrial personnel is impeded by the steadily worsening problem of employment which is increasingly felt even by trained personnel. Thus, in India the number of unemployed with a secondary and higher education rose three times between 1956 and 1966 reaching 1.5 million.<sup>1</sup> In Sri Lanka the number of such persons exceeded 440,000.<sup>2</sup> At the beginning of the 1960s almost half of the graduates of higher and specialised secondary educational establishments in Thailand were unemployed. This situation is characteristic of many Asian, African and Latin American states.

In training industrial personnel a number of these countries has now to consider the prospect of the outflow of part of their scientific, engineering and technical personnel to developed capitalist states. Available data, for all their inaccuracy, reveal quite an alarming picture. The number of professionals migrating from developing countries rose in the last 10 to 15 years 3, 4 and more times (India, the Arab Republic of Egypt, Argentina, and some others). Their main

<sup>1</sup> *The Third Five-Year Plan*, New Delhi, 1961, p. 156; *Fourth Five-Year Plan. A Draft Outline*, New Delhi, 1965, p. 106.

<sup>2</sup> *Economic Development 1966-1968. Review and Trends*. Issued by the Ministry of Planning and Economic Affairs, Ceylon, Colombo, 1967, p. 65.

"importer" is the United States. The number of only highly trained professionals coming to the United States from developing Asian, African and Latin American countries rose from 3,400 in 1962 to 5,800 in 1966 and 7,900 in 1967, and during the period from 1962 to 1967 totalled almost 30,000.<sup>1</sup> The influx of trained personnel to the United States from Asian countries grows fastest of all: it increased almost 3.5 times between 1962 and 1966.<sup>2</sup> Britain, France, the Federal Republic of Germany, Canada and a number of other states also "import" brains from the developing world. In their book *L'exode des cerveaux* (The Brain Drain), issued in Lausanne in 1968, W. Adams and H. Rieben reported that among the professionals who emigrated to the United States between 1962 and 1966 from developing countries there were 7,300 engineers, 3,300 scientists (including 2,700 in the natural sciences and 600 in the humanities) and 6,900 physicians.<sup>3</sup>

The brain drain is one of the latest manifestations of the international redistribution of manpower, of labour and intellectual resources resulting from the uneven development of world capitalism, the continued exploitation of the former colonies and semi-colonies by imperialism and the widening gap in the economic levels of countries. The brain drain involves people for whose training the national resources of the less developed states in the world capitalist system have been spent. And although such an outflow from developing countries so far does not tangibly affect the creation of a pool of strictly industrial personnel, this menacing phenomenon may make itself felt in future, withdrawing from the developing world the national personnel so needed for industrialisation.

Specific difficulties and complications in solving the problem of industrial personnel are engendered by the demographic situation in the developing world. According to available UN forecasts, the population of developing coun-

<sup>1</sup> *Brain Drain. International Migration of Professionals from Developing to Developed Countries*. UNITAR, Board of Trustees, 7th Session, New York, September 1968, tables; *The Financial Times*, March 7, 1968.

<sup>2</sup> *The Brain Drain into the United States of Scientists, Engineers and Physicians*, Washington, 1967, Tables I-V.

<sup>3</sup> W. Adams, H. Rieben, *L'exode des cerveaux*, Lausanne, 1968, p. 301.

tries may increase in 1975 by 25 per cent as compared with 1965, by 39 per cent in 1980, and by 108 per cent in 2000.<sup>1</sup>

E. Castle, a British scholar, taking as an example the East African states where the population is expected to double at the end of the 20th century, writes that this may reduce to naught all the efforts to develop the educational system.<sup>2</sup> On the other hand, in developing countries, as emphasised by Frederick Harhison, an American researcher, "at least two-fifths of the population is likely to be less than 14 years of age and hence not considered to be in the labour force".<sup>3</sup> Thereby, as the population grows, the need for the spread of elementary education, of its initial levels, becomes more pressing, accentuating the existing chronic imbalance in education and training and objectively reducing the possibilities of extending the other levels, above all specialised vocational training.

The provision of the personnel necessary for industrialisation is also impeded by the social, class contradictions which are growing sharper, making it difficult to formulate a general national approach needed for coping with such a task, to find the necessary resources, and so on.

For all these difficulties, contradictions and complexities faced by developing countries in organising the training of their own industrial personnel, shifts in this fundamentally new sphere of independent progress are already discernible. But on the whole processes of vocational training of industrial personnel in most of these states are only just beginning and actually have not contributed much towards their industrialisation. To change the existing situation, as rightly held by UNIDO and ILO experts, "the time has come to take more effective action at both the national and international level".<sup>4</sup> For all patriotic forces of developing states such action implies a wide range of effective measures which would accelerate and facilitate the solution of the personnel problem in the interests of their peoples.

<sup>1</sup> "World Population Prospects as Assessed in 1963"—*UN Population Studies* No. 41, New York, 1966, pp. 184, 188.

<sup>2</sup> E. B. Castle, *Growing Up in East Africa*, London, 1966, p. 54.

<sup>3</sup> UNESCO IIEP: *Manpower Aspects of Educational Planning. Problems of the Future*, p. 59.

<sup>4</sup> UNIDO. *Issues and Problems in Manpower Development for Industrialization*, ID/Conf. 1/30, p. 20.

### 3. MAIN PREREQUISITES FOR IMPROVING THE TRAINING OF PERSONNEL

An analysis of a number of tendencies and difficulties in training personnel for industrialisation shows how diverse and intricate this process is in countries which have fallen behind in their socio-economic development, how big are their tasks in this sphere and how modest are the achievements registered so far. The objective need to raise the efficacy of personnel training dictated by industrialisation requirements increasingly concentrates the attention of the patriotic forces working for progress on questions of formulating and applying an appropriate policy and practical action. In the light of the accumulating experience, shifts and difficulties, developing countries arrive at the opinion that the training of personnel "calls for appropriate institutions and machinery to determine and implement systematic policies regarding such matters as the level and structure of employment and the provision of balanced vocational education and related training facilities".<sup>1</sup> But this means that there is an ever greater need for devising in developing countries a scientific, optimal system of training personnel with the most expedient correlation of its levels and links. This system requires a combination of proportionality and gradual development so that the deliverance of the masses from the grave legacy of colonialism, illiteracy, should not overshadow the training of personnel for economic development, including industrialisation.

Specialists, in particular UN experts, hold that the period of general education should conclude with two or three years in which the general content is combined with occupationally oriented content and career counselling. The curriculum should provide for streams of students tending towards different careers. The occupationally oriented content should be quite broad offering appropriate background for large groups of occupations rather than for very specific occupations or jobs. This phase might best be within comprehensive (multi-channel) schools, rather than in schools which isolate

students preparing for a higher academic level from vocational preparatory students.<sup>1</sup>

Apparently the accomplishment of such a task will be acceptable only for some states and entails a big expenditure. Be that as it may, developing countries cannot do without emphasis on the scientific and technical content of personnel training, without a scientific approach to relevant economic, technical, social and political problems. This is especially important because in these countries, in contrast to developed states, the younger generation grows up inadequately familiar with scientific, technological and economic knowledge and it is often devoid of many things that influence man in developed states. That is why many of these countries regard the restructuring of the routine colonial system of education as the initial prerequisite for this reconstruction. The conference on the development of education in Africa held in Addis Ababa recommended, in contrast to the abstract humanitarian systems of education of the colonial past, a concrete, applied approach so as to familiarise students with fundamental knowledge of nature, to foster habits of creative activity and solution of practical problems.<sup>2</sup>

Indicative of the emergence of this tendency are also the propositions formulated in the Charter (Programme) of the National Revolutionary Movement in the People's Republic of Congo. This document sets the task of reorganising the system of education so as to combine theory with practice, to ensure a scientific basis for training personnel taking into account the priority needs of national development. The Charter points to the need for laying emphasis on the scientific trend of education in all subjects, of elevating the importance of, and giving encouragement to, teachers of scientific and technical subjects.

Many developing countries out to modernise the school system seek ways of changing the periods of study, the most suitable and effective forms of its polytechnisation, are trying to utilise for this purpose the radio, TV, methods of programming instruction, and so on.

<sup>1</sup> UNIDO. *Issues and Problems in Manpower Development for Industrialization*, ID/Conf. 1/30, p. 21.

<sup>2</sup> UNESCO. *Conference of African States on the Development of Education in Africa. Final Report*, Addis Ababa, May 15-25, 1961, pp. 23-24.

<sup>1</sup> *The Egyptian Gazette*, February 3, 1966, p. 4.

The training of workers in developing countries likewise has to be modernised. Instruction on the job as an important channel of training skilled workers is so far little utilised. At the same time costly specialised educational establishments outside the productive sphere are established. There is a view that vocational schools are comparatively expensive and lead to the introduction of the principle of a general school-university education in vocational instruction, while the knowledge of their graduates is insufficient for the needs and requirements of industrialisation.<sup>1</sup>

In conditions of developing countries instruction in specific trades at enterprises or at other places of work offers a number of advantages. First, the number of trainees is almost equivalent to the actual demand and its specific features, a direct interconnection is ensured between the needs and the content of the curricula, which reduces to a minimum the waste of resources and prevents senseless training (for non-existent jobs). Second, the trainees directly master the latest production processes and equipment; the lack of instructors becomes less critical. Third, the possibility arises of organising systematic advanced training of the employees so that the process of their training should not end formally at the stage of general and specialised education.

In reality, developing countries have to make a choice between production training and training in special schools considering the relative cost and efficacy of each of these methods. From the viewpoint of satisfying needs in definite trades, training of workers on the job is apparently preferable in many countries.

It follows that industrialisation dictates a persistent exploration of the most effective types and forms of instruction to meet the requirements in skilled personnel in the specific conditions of developing countries.

Taking into account the socio-economic situation in the developing world, the needs and possibilities of its industrialisation and training of personnel, the following general conclusion can be drawn: for most of these countries the present period and the immediate future of economic development and industrialisation are linked to the wiping out

<sup>1</sup> *Education and Training Policy for Industrialization and Education and Economic Development*, Chicago, 1965, pp. 142-66.

of illiteracy, the spread of education and the training of national personnel, predominantly of average skill; the more distant prospects will increasingly depend on the further spread and modernisation of secondary and higher education.

A solution of the personnel problem in developing countries is increasingly sought within the framework of a government-controlled system. UNIDO and ILO experts note that it seems natural for the state directly to intervene in activity for the training of personnel.<sup>2</sup> Indeed, the training of industrial personnel for its content, and the breadth and depth of the concrete questions—economic, administrative, political, social (including language)—calls for a nationwide, state approach.

The role of the state is particularly important in solving specific "personnel" problems on which, in the opinion of experts, it would be expedient to concentrate the efforts of developing countries<sup>2</sup>: 1) professional guidance in training personnel, especially of high skill and key occupations; 2) development and improvement of model projects of co-operation between educational establishments and industry; 3) collection of the relevant information and description of vocation and skill requirements with their necessary popularisation; 4) raising the status of those who are needed in industrial sectors, study of the social and cultural factors which promote or hinder industrialisation and the training of the necessary personnel; 5) improvement in the selection of students, better vocational guidance and expedient placement of personnel.

Only with state interference and control is it possible to organise the national training of industrial personnel with a concrete determination of the specific designation, duration, methods and other aspects of unified training at all levels—from skilled workers to engineering, technical and managerial personnel. It is rightly pointed out by UN experts that in this sense private enterprise calculations are limited, as a rule, by considerations of the favourable re-

<sup>1</sup> UNIDO. *Education and Training Programmes for Industrialization*, ID/Conf. 1/33, p. 9.

<sup>2</sup> UNIDO. *The Effective Utilization of Manpower for Industrialization*, ID/Conf. 1/32, p. 24.

sults expected by the given firm and will mainly relate to the types of specialisation it requires.<sup>1</sup>

The predominant responsibility of the state for the training of industrial personnel is in many countries also determined by the important role of the public sector in the economy, in industrialisation and providing employment to skilled personnel. In Uganda over half of all graduate manpower and nearly a third of secondary qualified manpower were employed in the public sector.<sup>2</sup> In India the growth of heavy industry in the public sector is absorbing an increasing part of the graduate engineering and technical personnel and more than 80 per cent of all the scientists and engineers work at state enterprises and institutions.

The alignment and confrontation of political forces and the exacerbation of class contradictions result in the objective necessity for state guidance of training national personnel and the development of the required education and instruction. This, however, is realised in all developing states to an unequal extent and along different lines.

Administrative and organisational measures are characteristic above all. Many states for the first time set up national agencies of government control and supervision over education and training, respective ministries, departments, and so on. For example, in India such agencies have been set up not only by the central government but also in the states; various institutions called upon to co-ordinate and direct the development of individual branches and levels of education are also functioning: University Grants Commission, All-India Council for Technical Education, and others. Some countries are taking steps to turn education and personnel training into a sphere of exclusive state competence and guidance. In Sri Lanka, following the 1960 act instituting government control over school education, almost all educational establishments have come under the jurisdiction of the state.

There is growing understanding that without state planning of education it is impossible to arrange effective training of national personnel. Certain experience in this respect

has already been accumulated in India, Egypt, Algeria, Guinea, Tanzania, Senegal, Mexico, and other countries.

The first national surveys of the state and prospects of education and training, conducted in a number of countries, are of considerable importance for an approach to the planning of personnel and the elaboration of long-term programmes which take into account the training of national personnel. Such an attempt, for example, was made by the Nigerian Ministry of Education which issued a special report in 1960; it not only presented a picture of education in the country but also furnished projections of development for Nigeria as a whole and for individual regions. This report was widely circulated and provided a stimulus to similar measures in other countries.<sup>1</sup>

New possibilities in planning the education and training of personnel have been opened up to developing states by the broad discussion of this problem along regional and continental lines. A conference of leading educational officials of 35 African countries was arranged by UNESCO and the UN Economic Commission for Africa in Addis Ababa in May 1961. It was attended by representatives of other states, including the Soviet Union. Throughout the conference, as reported by the press, hope prevailed that a reorganised educational system would promote economic productivity.<sup>2</sup>

The conference adopted a plan of the development of African education for 1960-80. Let us mention its most essential features which concern the training of industrial personnel. It calls for increasing more than seven times the number of pupils in secondary schools; only one-third is to study in general educational schools, while the others are to go to technical and other specialised vocational establishments. The number of students in higher educational establishments is to increase tenfold, 90 per cent are to study in African institutes, predominantly in the technical and natural sciences. Similar conferences were also held in Asia (Karachi, 1959) and Latin America (Santiago, 1962).<sup>3</sup>

<sup>1</sup> *West Africa*, November 7, 1964, p. 1259.

<sup>2</sup> See *African Affairs*, Vol. 64, No. 256, London, July 1965, p. 211.

<sup>3</sup> See *Mirovaya ekonomika i mezhdunarodniye otnosheniya* No. 6, 1969, pp. 123-24.

<sup>1</sup> See UN. E/CN. 5/402/Add. I, p. 58.

<sup>2</sup> UNESCO IIEP. *Manpower Aspects of Educational Planning. Problems of the Future*, p. 244.

The long-term plans and outlines for the development of education, despite their schematic nature and insufficiently realistic approach, and other aspects of these regional conferences, played quite a significant part in the elaboration by a number of countries of their own plans and programmes for the advance and modernisation of education as a major stage in personnel training, in the adoption of the principle of planning for this sphere.

To understand the nature and specific features of planning personnel training for the industrialisation of developing countries, it is necessary to bear in mind that it is designed to furnish an answer to a number of specific questions helping to establish (1) the nature of the skills and the number of specialists for consecutive stages of industrialisation; (2) the elements of skill which must be considered in the curricula; (3) organisational measures to provide the economy with specialists and their employment; (4) appropriate financing; (5) optimal balance as regards the quantitative and qualitative aspects of developing industrial personnel.

The introduction of state planning in education and the more so of training skilled personnel is in the initial stage. So far it is little or in no way co-ordinated with general planning of socio-economic development, is not linked up with the projections of industrialisation, the growth of the public sector, and so on. Developing countries have by far not organised "the preparation of systematic training programmes derived from general development plans, based on manpower surveys and quantitative projections of trained manpower requirements".<sup>1</sup> Such limited planning "has failed to take into account the development and the best use of four-fifths of the potential human resources in such countries as those of East Africa".<sup>2</sup> To raise the efficiency of planning personnel training these countries are looking for methods and ways of integrating it with planning as a whole. These questions were discussed at the meeting of a group of experts, organised by UNESCO in Bangkok (September 1967), who tried to delineate some approaches to such integration.<sup>3</sup>

<sup>1</sup> *The Egyptian Gazette*, Cairo, February 3, 1966, p. 4.

<sup>2</sup> UNESCO IIEP. *Manpower Aspects of Educational Planning. Problems of the Future*, p. 161.

<sup>3</sup> UNESCO. SHC/WS/45.

Of key significance for a system of training skilled personnel is the national organisation of financing. In principle, this financing is possible from the following main sources: a) state appropriations; b) allotments by industrial and trade enterprises, societies, associations, and so on; c) enlistment of personal funds (payment for tuition, donations, and so on).

The organisation of skilled personnel training, the purposeful, planned development of this process and its efficacy, naturally, depend, above all, on the financial participation of the state. That is why in most countries the relevant government appropriations are steadily growing. In India, government appropriations for the advance of education and personnel training increased almost eight times during the period covered by four five-year plans. The share of the expenditure for technical education amounted in the First and Second Five-Year Plans to 13 and 19 per cent respectively and under the Third Five-Year Plan to 25 per cent of all government appropriations for education and training.<sup>1</sup>

According to estimates made by experts of the UN Economic Commission for Africa, the share of allocations for education and training in the general economic expenditure in plans of African countries ranged from 2 to 5 per cent in Ethiopia, Egypt and Morocco; from 7 to 10 per cent in Uganda, Kenya, the Malagasy Republic, Upper Volta, Togo, the People's Republic of Congo, Tunisia, Ghana, Guinea and Nigeria; from 11 to 14 per cent in Cameroun, Sierra Leone, Senegal, Ivory Coast, Sudan, Niger and Tanzania.<sup>2</sup> The interconnection of general economic investments and allocations for the development of education per capita, envisaged in the plans of these states, was characterised by ratios ranging from 60:1 (Ethiopia) to 6:1 (Tanzania).<sup>3</sup>

Substantial differences in the scale of financing are caused by the economic and political conditions, the possibilities and requirements of development and frequently by chance incidents and errors, in forecasts. Nevertheless, for the first time developing countries have possibilities of financing the training of personnel within nationwide bounds and ensuring, to a certain extent, definite resources for progress in this

<sup>1</sup> *Third Five-Year Plan*, p. 170.

<sup>2</sup> UN. *1963 Report on the World Social Situation*, p. 191.

<sup>3</sup> UN. *Economic Bulletin for Africa*, January 1964, p. 80.

important sphere. True enough, on the whole the size of financing education and personnel training is still far removed from the level which would ensure the required progress in solving the personnel problem.

The scale, techno-economic, financial and social aspects of training industrial personnel are such that developing countries cannot cope with them with their own efforts. The setting up of educational establishments, financing and providing them with material and technical facilities, replenishing the contingent of instructors, and organising vocational training in the course of industrial construction can be facilitated by the assistance of more developed states.

Many facts show that the imperialist states are trying to retard and also to subordinate to their influence the training of industrial personnel, especially of engineers, technicians and managers in developing states. This mission is performed above all by foreign capital. Many foreign companies evade hiring local factory and office workers, employ them predominantly on low-skilled jobs and prevent their vocational and technical advance.

Government organisations of imperialist states and international institutions they control also see to the implementation of this policy. Suffice it to visit the capital of almost any developing country, as pointed out by F. Coombs, former director of the International Institute for Educational Planning of UNESCO, "to observe the multiplicity of educational aid 'representatives' of various bilateral, international and philanthropic agencies, each eagerly negotiating with local educational authorities on various types of educational help".<sup>1</sup>

Educational establishments are set up on funds provided by the United States, Britain, the Federal Republic of Germany and other Western states, and instructors, textbooks and other literature are provided. Although the efforts of the imperialist states outwardly seem like assistance, they arouse growing anxiety and doubt in developing countries. "Our universities..." S. G. Ikoku, a Nigerian, points out in his book, "are 'assisted'—i.e., planned, financed and directed—by external agencies like the Ford Foundation, the Carnegie Corporation and Rockefeller Trust, all of the

U.S.A. And these bodies ... have come to be known and accepted as agencies of U.S. foreign policy."<sup>1</sup>

One of the symptoms that American and in general Western aid in training personnel is regarded by its strategists as a political instrument is the well-known speech made by W. Benton, an American publisher, in Philadelphia at the American Academy of Political and Social Science on education as an instrument of foreign policy.

The United States is exerting special effort so that its aid in education and training personnel should promote in developing countries the creation of a "middle class" suiting American monopoly capital and should popularise and implant "the American way of life". The Peace Corps of the United States, whose members are operating in more than 50 developing countries, is also performing a political mission for American imperialism.

Britain's policy is revealed in the so-called Robbins Report. It states in particular that personnel training is of great political and economic significance, particularly as regards developing countries. Britain is advised constantly to increase the number of foreign students who receive training in her educational establishments.

All these imperialist aims are embodied in the nature and the evolution of aid to developing countries, in the practices of the organisations and institutions which apply it and the new forms of expansion associated with the training of personnel for industrialising developing countries. However, in view of the scientific and technological revolution imperialism, seeking to achieve its economic and political ends, has to promote, in one or another way, the attainment of a definite level of education in developing countries and the training of national personnel. All this notwithstanding the imperialist approach to aid to developing countries runs largely counter to their fundamental interests, which is admitted even by some Western authors.

Real assistance in the industrialisation of the developing economy, its reconstruction and modernisation, independent socio-economic progress and consolidation of sovereignty—this is what determines the approach of socialist countries in helping solve the problem of national personnel. Techno-economic co-operation along these lines is already produc-

<sup>1</sup> Quoted after I. Cerych, *Problems of Aid to Education in Developing Countries*, New York, Washington, London, 1965, p. VII.

<sup>1</sup> S. G. Ikoku, *Nigeria for Nigerians*, Lagos, p. 8.

ing tangible results. Thus, 20 higher educational establishments have been built or are under construction to meet the needs of African and Asian countries in specialists, primarily for industry. Modern educational establishments have been built with Soviet help—technical institutes in India, Burma, Cambodia, Guinea and Ethiopia; a Higher Administrative School, vocational schools and centres for training agricultural specialists and a medical school in Mali. The Soviet Union has rendered India the necessary assistance in setting up the Technological Institute in Bombay, with engineering, electrical engineering, metallurgical, chemical-technological and construction departments.

Hundreds of thousands of skilled workers and foremen have already been trained through individual and group instruction in the course of building various projects and commissioning them with Soviet assistance. Training centres and vocational schools have been set up and are functioning well in a number of countries. In particular, thousands of skilled workers and specialists have been trained at the construction site of the Aswan High Dam and other industrial projects in the Arab Republic of Egypt.

Citizens from Asian, African and Latin American countries receive education on privileged terms according to a progressive system of instruction in educational establishments of the Soviet Union, Czechoslovakia, the German Democratic Republic, Poland and other socialist states. Such co-operation helps young states in training industrial personnel of a new type.

Of considerable importance for training industrial personnel is assistance by international organisations, above all along UN lines, which is largely promoted by the energetic efforts of the Soviet Union and other socialist states. A certain livening up in the study of the personnel problem and the provision of financial and other aid to young states has been observed in the activity of the United Nations and such organisations as ILO, UNESCO, UNIDO and others. The same is also true of the activity of UN regional economic commissions and the regional institutes of economic development and planning for Asia, Africa and Latin America.

Like industrialisation itself, the training of personnel demands not only a national but also a subregional and regional approach, the establishment of comprehensive educational establishments serving several developing countries,

joint measures, the elaboration and implementation of joint programmes, which is particularly important for small states. The tendencies of such co-operation are displayed in attempts to arrive at uniform approaches during various meetings and regional conferences on the development of education and regional symposiums on the industrialisation of developing countries, at which personnel problems are examined. There are also attempts to make joint practical decisions. A group of West African countries, for example, is examining the possibility of organising a school of agricultural engineers and a veterinary institute. The East Africa University has made a definite contribution to the training of personnel, including industrial, for Kenya, Tanzania and Uganda.

An examination of existing tendencies in personnel training and the emergent difficulties show that the personnel problem makes up one of the most intricate aspects in the general task of industrial progress.

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Developing countries are at the initial stage of building up their own personnel for industrialisation. Within the bounds of their limited resources they urgently have to elaborate a definite strategy and more flexible policy, it is necessary to reorient the trends of planning, the general approach to the aims and functions of education and training at the level of the general educational and specialised school.

Much in this respect depends on the political and social situation in these countries, the possibilities of carrying out the socio-economic changes examined earlier, which are capable of opening the road to rapid industrialisation, thereby raising the society's demand for skilled personnel and a radical solution of the related problems. On the other hand, the provision of national skilled personnel for the industrialisation can create prerequisites for swifter industrialisation and also for modernising the social patterns of these countries and the crystallisation of a more progressive social system, for accelerating and deepening national reconstruction.

Thus, training of personnel for industrialisation, and the prerequisites and consequences of this process go far beyond strictly economic bounds and are not only of techno-economic, but also of great political and social significance for the present stage and historical prospects of the developing countries.

al countries and regions are by far not the same in this respect. Of the developing countries Argentina, Brazil, Mexico and India have already become agrarian-industrial to a certain extent, while most of the countries of Tropical Africa have no manufacturing industry to speak of (except primitive handicraft workshops).

In this connection all developing countries could be conventionally divided into the following groups taking the level of a modern industry in them as a criterion:

1. Agrarian-industrial countries with relatively developed manufacturing and swiftly expanding (although still not very substantial for its share) heavy industry, including engineering. This group includes above all Argentina, Brazil, Mexico, India and Egypt.

2. Countries with a developed extractive industry and also some manufacturing, chiefly light and food industries oriented primarily on the home market. In these countries industry belongs both to national and foreign capital. Among them are the Philippines, Pakistan, Iran, Syria, Algeria, Tunisia, Morocco, Uruguay, Chile, Colombia and some other states.

3. Agrarian-rain material countries which have a comparatively developed extractive and some processing industry (belonging mainly to foreign capital), which ensures chiefly a certain degree of processing of the exported products. Malaysia, Indonesia, Iraq, Kuwait, Liberia, Zambia, Zaire, Bolivia, Venezuela and Peru are the most typical countries of this group.

4. The least developed countries, predominantly agricultural for the pattern of their economy, which have only a few enterprises in the extractive and processing industry. These are most of the countries of Tropical Africa, Jordan, Yemen, Cambodia, Laos, Nepal and Afghanistan in Asia, some Central American states and young countries located in small islands.<sup>1</sup>

A comparison of these groups leads to the natural conclusion about the fundamental difference in their approach to industrialisation. This difference is further accentuated by the fact that of the about 90 developing countries 72 have a population of less than 15 million; 53 less than 5 million, and 26 less than 2 million each. There are also tremendous differ-

## CONCLUSION

Industrialisation is indissolubly linked with the entire complex of socio-economic changes under way in developing countries. This is above all determined by the fact that they see in industrialisation the most feasible path for restructuring the national economy and accelerating growth rates. The industrialisation policy adopted by the overwhelming majority of states in Asia, Africa and Latin America is designed to diversify the national economy and introduce modern production methods in all the main sectors. What makes this process especially complex is that it is taking place in conditions in which different structures, for example, the patriarchal-communal and the capitalist, coexist in the economy. Naturally, the selfsame measures effected by national governments may have a diametrically opposite effect on them.

Industrialisation is proceeding amidst a keen struggle over the ways of further development and, therefore, acquires by far not the same socio-economic nature in different countries. In present-day conditions, taking into account the need for restructuring the economy, the huge scale of technical reconstruction and the application of scientific and technological achievements, it is hardly possible to name a country which could cope with this task by importing machinery and equipment (especially in view of the unfavourable prospects of extending exports from developing countries into imperialist states). Therefore, ultimately the tasks of industrialising Asian, African and Latin American countries must be accomplished primarily by building up their own industrial basis and organising the national output of producer goods. The objective possibilities and the achieved level of individu-

<sup>1</sup> For more details see *Mirovaya ekonomika* (The World Economy), Moscow, 1966, Chapter 20.

ences in area. Thus, Brazil takes up a territory of 8.5 million sq km; India 3.3 million; Argentina 2.8 million; Gambia 10,400; Ruanda 26,300; the Lebanon 10,000 sq km, not to mention the Maldives (300 sq km) and Western Samoa (2,800 sq km). It is natural that the industrialisation of Brazil differs and will differ from that of Burundi. Both of them, however, need an industrial basis for their economic independence.

The specific features of industrialisation in different countries follow from the existence of natural resources on the basis of which it is only possible to effect a country's industrial development. Every country which begins to study the possibilities of industrialisation or actually undertakes it has to consider these objective factors.

But in this process not only objective but also subjective factors operate which at times introduce no smaller, and perhaps even bigger, differences in the approach to this problem. In this respect a special place is held by the state. Enhancement of the role of the state is characteristic of the economic development of all these countries, just as the industrialisation process in all its forms and at every stage is inseparably linked with the more active participation of the state in the economy. A country's path of development largely depends on the purposes of industrialisation defined by the state. In the least developed countries, as a rule, such vitally important tasks are put to the foreground as a) an increase in the employment of the population, or b) improvement in the quality and degree of processing of export goods, or c) a reduction of the import expenditure by organising the local production of manufactured goods. In larger countries which have already registered certain achievements in eliminating backwardness broader tasks are put to the fore: a) elimination of a country's general techno-economic backwardness; b) securing its defensive capacity, and so on.

It should be noted that each of these tasks is very rarely set alone. Usually a few tasks are combined, one of which is the key task at a given stage. Depending on the main goal (and also on the general level of economic development) the appropriate methods of attaining it are selected. These methods are usually as follows: a) the building of enterprises for the manufacture of prime necessities by importing the respective equipment; b) mechanisation of the extraction (production) of raw material, its primary processing and,

occasionally, the manufacture of the finished product, likewise by importing equipment; c) the swift development of labour-intensive jobs without the application of the latest technology; d) the development of traditional sectors and their mechanisation on the basis of organising the national manufacture of some means of production for these sectors; e) the building up of the national manufacture of producer goods on the basis of the latest equipment, and the subsequent reconstruction of the entire national economy, either by importing modern equipment and patents, or through national production, and, more often, by combining the two.

Different countries, considering all these circumstances, formulate an industrialisation policy, decide what sectors and on what scale should be built up in the first place. What is to be emphasised, what should be given priority—the infrastructure or the building of industrial projects, industry or agriculture, small- or large-scale industry? A struggle flares up over these problems. For developing countries these are not academic disputes, but very definite and practical questions.

At first the tasks of formulating a "strategy of development" or "industrialisation strategy" were regarded in broad outlines in most of the countries concerned. It was assumed that for these purposes it was sufficient to indicate only one or two main directions (most often, the building up of a number of new industries), while the other aspects of development would come to light of themselves. Such an approach invariably resulted not in the creation of prerequisites for accelerated growth, but in the rise of new disproportions in the national economy.

Proportionality is one of the most important and intricate aspects of ending economic backwardness. What makes for its complexity is that these countries have simultaneously to ensure the development of the different sectors and trends of the economy, culture and social life, and co-ordinate this process in different spheres. Insufficient consideration or ignoring of individual links in the national economy and social life inevitably engenders disproportions and impedes the general process of development.

Of late an increasing number of these states has been striving to approach more thoroughly and comprehensively to the formulation of the "strategy of development". This

question is more often examined not as mutually exclusive alternatives, but as the correlation of the forms and the scale of interaction of opposite tendencies. For this purpose planning agencies each time have to evaluate critically the positive and negative sides of different solutions to problems of development and different approaches to restructuring the national economy. It will be recalled that in the 1950s many experts of the International Bank for Reconstruction and Development, the International Monetary Fund and the US Export-Import Bank advised developing countries, especially the least developed, to concentrate on creating a production infrastructure and only then undertake the building of industrial projects. There was also an opposite viewpoint which in effect belittled the importance of the infrastructure. Realities have demonstrated the untenability of such extreme solutions. Many socio-economic factors have to be considered in determining the scale and sequence of building infrastructure projects.

The policy of giving priority to building the infrastructure objectively proceeds from the premise that the existence of a ready production infrastructure should spur on private businessmen to make new investments. In other words, such a policy is a component of the more general "strategy of development" along the capitalist path. The experience of Brazil, Iran, Pakistan, and some other countries has shown that in many cases the creation of an infrastructure in expectation of subsequent greater activity by private capital has not been justified. As a result, the huge resources invested in the infrastructure have become frozen and idle. On the other hand, the absence of an adequate infrastructure can impede development in many ways, stop the construction of new enterprises and encourage the building of technically backward establishments, send up production costs at modern factories, and so on. The rational scale of developing the infrastructure can be determined only in the context of a general analysis of the entire pattern of the economy and the interaction of a country's different sectors and regions. The problem of the infrastructure is especially acute in the least developed countries. But at some stages it may acquire great urgency in relatively developed countries as well. For example, during India's Third Five-Year Plan the insufficient development of the transport system was regarded as a serious brake on the growth of the economy, and the

government was forced to take special measures to expand and improve this sector.

The correlation between industry and agriculture is an exceedingly intricate question for most of the developing countries. The one-sided recommendations of imperialism's ideologists who advised most of the developing countries to abandon the idea of building up their own industry and to concentrate on the accelerated expansion of agriculture, have clearly revealed their insolvency. The agriculture of these countries based on primitive production methods cannot ensure the needed accumulation, food and markets for the sale of manufactured goods. The difficult position of such agricultural commodities as coffee, cacao beans, tea, jute and rubber in the world markets dooms to failure the attempts at general development by accelerating agricultural exports. The need for building up a national industrial basis in a number of countries is clearly revealed specifically in that they are unable to ensure by imports either the necessary quantity of fertilisers or farming machinery, without which an advance of agriculture is impossible.

From what has been said it does not follow that developing countries must not make utmost use of their agricultural potential. Countries especially backward may find themselves in a situation where without the preliminary advance of agriculture, without its greater commercialisation and improvement of its pattern it will be impossible to ensure the accumulations needed for industry and markets. Countries which have favourable soil, climatic and other conditions, utilising these advantages at the initial stages, are able to turn one or two branches of agriculture into the leading ones, which by the very logic of building up an independent national economy will become centres of a broader national economic complex and a new economic pattern will gradually emerge. If the original basis for industrial development is, for example, sugar cane, the economy cannot for a long time be founded only on growing and harvesting it, even if the yield is high and work is completely mechanised. It will be natural to build sugar mills and to organise animal husbandry on the basis of by-products and wastes; it will also be necessary to create a chemical industry. Animal husbandry, in turn, will dictate the processing of its products. In time the processing and chemical industries will reach a stage where they, in turn, will require the manu-

facture of specialised machinery, and so on, and so forth. The same can be said about other countries which have particularly favourable conditions for highly productive animal husbandry, the growing of tropical crops and also countries which possess rich resources of mineral raw materials and fuel.

Most of the developing countries have already taken to the path of diversifying their economy and developing a national industry. Many development plans and programmes of Asian, African and Latin American countries provide for a substantial growth of industry's share in the national income and in the general allocation of new capital investments.

But the possibilities of even such an evolution of the national economy largely depend on the class character of the state, the nature of its economic policy and the ability of the government to protect the interests of the country's independent progress. Given a consistent anti-imperialist policy and the extension of economic ties with socialist states, these possibilities are widened and the industrial growth rates can rise. Under a capitalist orientation and renunciation of the struggle against imperialism these processes are either sharply impeded or they extend the sphere for the investment of foreign capital and the establishment of new forms of economic dependence.

The results of recent years convincingly show that the question of the correlation between agriculture and industry has by far not been solved as yet. In a number of cases the accelerated development of industry has been accompanied by an underestimation of the need to increase agricultural output. The preservation of archaic relations of production in the countryside greatly hinders the development of ties between town and country, narrows the market for industry and, specifically, often reduces to naught even the modest measures for raising the scientific and technical level of production in agriculture and introducing fertilisers and machinery. The low level of agricultural production is increasingly compelling developing countries to spend a considerable part of their foreign exchange resources for the purchase of food and not of equipment.

But the point is not only that the lag of agriculture retards and warps industrial development. An analysis of the correlation between industry and agriculture is closely linked with another no less important question: what industries

exactly should be given priority so as to ensure the most rational interconnections between town and country and the proportional and swift advance of the national economy as a whole.

It goes without saying that in every country and at every stage the correlation and interaction of industry and agriculture must be determined by considering all the existing conditions. There can be no single recipe in this matter. In some cases the biggest national economic effect can be obtained by speeding up the production of fertilisers or pumps for irrigation. In countries where the population density is not very high, it may be expedient to organise the local manufacture of tractors and agricultural machinery. In many instances it may be most advantageous to organise the local processing of agricultural produce or to extend the raw material basis in conformity with the existing industrial capacities. Big discussions are conducted over the role of small-scale production in the process of industrialising developing countries. The majority of both Soviet and foreign scientists now agree on the point that small-scale and craft production cannot serve as the basis for industrialisation, although it should be given much attention in this process. Small-scale production does not require big initial investments, and it is capable of increasing employment and mobilising small personal savings. It extends the home market to a certain degree, produces some scarce goods and helps train personnel (people who have mastered a craft learn modern industrial trades more easily and faster), and so on.

Some proponents of small-scale production think it is least of all dependent on foreign capital, supposedly increases economic independence, and makes the economic development process harmonious and gradual. They often cite Japan as an example, ignoring one very important point: there, too, small-scale production plays only an auxiliary part in the country's industrialisation.

Small-scale production undoubtedly can play a considerable part in the general economic advance and it demands utmost support as an important subsidiary form of expanding output and increasing employment. It is these aims, for example, that were set in the past for small-scale production in the USSR. But recognition of its importance, of its considerable possibilities is far from implying consent with theorists who think that small-scale production can serve as

the basis for industrialising developing countries. While solving some problems facing these states, small-scale production aggravates many others. It cannot provide the basis for ensuring high rates of extended reproduction. Moreover, small-scale production is marked by very low labour productivity, and therefore cannot serve as a basis for ending economic backwardness and winning a more equal position in international economic relations. The products of small enterprises are unable to compete in the world market; as a rule they require substantial subsidies and can be exported only in very small quantities. Moreover, it is well known from the history of many countries that as they were drawn into the world economy small-scale production had to retreat in face of imports. In present-day conditions small-scale production can survive only behind a wall of various protectionist measures and thanks to different privileges and subsidies. The big share of small-scale production preserved in developing countries is above all a reflection of their backwardness and unequal position in the world economy.

The very acute unemployment problem is another major reason for preserving and often expanding small-scale production in developing countries. The goal of increasing employment is compelling the governments of many states to utilise manual and little mechanised labour widely in building work and subsidiary jobs during the construction and subsequent operation of the biggest modern enterprises. While the scientific and technological revolution is impelling highly developed countries to replace regularly and swiftly obsolete equipment by the latest technology the developing countries frequently avoid using modern equipment, preferring to provide employment to a bigger number of people. At the same time the need for increasing output, modernising the productive facilities and winning a more equal position in the world economy is compelling developing countries to expand large-scale modern industry to the utmost.

As a result a constant and diverse combination of small- and large-scale production is one of the features of industrialisation in developing countries. In addition to serving the daily needs of the population, small establishments are widely enlisted in the production of subsidiary materials, individual components and packing materials for specialised big enterprises. Large-scale industry, in turn, supplies its

production wastes as raw material to small establishments. Such co-operation, should it become widespread, would facilitate rational specialisation and a rise in the efficiency of production as a whole. But the important socio-economic question that arises at this point is whether small-scale production should be subordinated to large-scale private production or the public sector. In the first case it would serve as a basis for accelerated capitalist development. In the other, it would restrict capitalism to a certain degree, while in countries which have taken to the non-capitalist path, subordination of small-scale production to the public sector could serve as the basis for future socialist development.

The correlation of heavy and light industry is an equally difficult problem. At present only a small group of countries like Mexico, Brazil, Argentina, India and Egypt are actually faced with the task of accelerating the development of heavy industry, of building up their own broad facilities for the manufacture of producer goods. They have sufficient prerequisites for coping with such a task in the form of accumulation sources, markets and skilled personnel (although in the course of building up a national heavy industry the limited nature of the available prerequisites will inevitably become apparent).

The accelerated development of heavy industry (as demonstrated by the experience of the USSR) opens up to these countries the possibility of re-equipping their economy in briefer periods and stepping up growth rates. But in most developing countries the prospect of building up in the near future of a broad heavy industry complex is hardly feasible in the present situation. Account must be taken of the fact that the home market, based on small peasant production, has a very limited demand for the output of heavy industry. Narrow specialisation of a national export-oriented economy slows down the expansion of the market for locally manufactured producer goods. The conclusion may be drawn that the degree of development of the home market is exerting a tremendous impact on the course of industrialisation in every country.

A combination of the expansion of light industry with the creation of building and power industries and a transport network is more expedient from a number of angles at the present stage for many Asian, African and Latin American countries. Light industry does not require big initial capital

investments and the availability of a big highly skilled labour force; the recoupment periods of investments, as a rule, are small and the profitability is relatively high. Moreover, its development can reduce the imports of many consumer goods and thereby save foreign exchange urgently needed for the purchase of more sophisticated machinery and the payment for the respective scientific and technological know-how from other countries. The development of the light and food industries also promotes a bigger output for home consumption. The comparatively low technical level of light industries determines their quite high labour intensity and, consequently, increases employment. The development of the light and related industries promotes a considerable expansion of the home market, increases accumulation and helps train personnel needed for a country's further progress.

The choice of a group of key sectors, taking into account the historically shaped pattern of the economy and its potentialities and also the existing international division of labour and its future tendencies, is the most expedient approach to the industrialisation problem for the overwhelming majority of developing countries.

Naturally, in the early stages one of the determining prime factors in elaborating this problem is an analysis of the possibilities of utilising the available (and potential) natural resources. For example, for big oil-producing countries it is advantageous to build up a national economic complex based on the petrochemical industry, which will enable them swiftly to introduce the latest achievements of scientific and technological progress and to utilise the advantages of this process in the world market. But this fact can be of a determining nature only at the initial stages of development. Subsequently an ever greater part will be played by imminent factors of industrial progress, including the interconnection and interdependence within the national economic complex and the demands of the world market.

Thus, owing to the diversity of objective and subjective factors, as we hope our study has shown, many alternative approaches to formulating the strategy of the initial stages of industrialisation in various less developed countries of Asia, Africa and Latin America are possible. For some countries it may be more expedient to concentrate on building the infrastructure and expanding the existing export sectors and the greater processing of their output to increase

accumulations. For others, it is more advisable to step up the development of light industry and small-scale production so as to increase employment and accumulations. The third group of countries may begin development with several, most promising sectors (from the viewpoint of the availability of raw materials and know-how and the size of the market) for the accumulation of the necessary resources and training personnel for the subsequent reconstruction of the entire national economy. Some of these countries are already able to undertake the building up of heavy industry and engineering and reconstructing, on their basis, the entire economy. For many of them a combination of these alternatives in one or another proportion is optimal.

Ascertainment of the most expedient sequence in developing and combining individual sectors, establishment of an optimal balance between the main sectors of the national economy is an exceedingly intricate task demanding consideration and analysis of many factors. In practice, as the colonial pattern of the economy is broken up, serious disproportions constantly arise which adversely affect the entire process of reproduction and slow down the general economic growth rates. One of the most telling indicators of this phenomenon is the swift increase in underemployed productive capacities in the entire national economy, particularly in industry.

Underemployment of the industrial productive capacities in developing countries is caused by many factors: a shortage of raw material and fuel, foreign exchange difficulties, the absence of skilled manpower and the size of the home market. But in any case these factors demonstrate that industrialisation is not simply a process of building up industrial enterprises, but a problem of shaping the most rational mechanism of economic regulation. It is inseverably linked with a deep reconstruction of the entire socio-economic pattern of society.

Industrialisation of developing countries is a prolonged and complicated process which presupposes the consecutive and purposeful remaking of the national economy. That is why successful industrialisation presupposes effective control by the state over the national economy, greater controllability of economic processes and the establishment of a broader basis for exerting planned influence on all the economic and social aspects of a country's life.

The success of socio-economic development, specifically

of industrialisation, also largely depends on the conscious participation of the masses in this process. The grave legacy of colonialism, the low level of the productive forces, and the acute shortage of material resources lend special importance to the active participation of the masses in national economic development, their awareness of the difficulties facing their country, readiness to work and make sacrifices in order to end its economic backwardness. Without this it is impossible to solve many of the most burning problems, to bring into action important potentialities for expanding production. Today, however, the sum total of social relations crystallising in capitalistically oriented developing countries—the exploitation of man by man, the quest for profit and socio-economic inequality—undermines the foundation for the active, conscious participation of the people in economic development process.

In these conditions special urgency and importance are acquired by the question of deep-going democratic changes both in the economic and the social sphere capable of rallying the masses for conscious action in building up the economy and the new society. In countries which follow the non-capitalist path, there is wide awareness of this need. Their development plans and programmes assign an important place to corresponding measures for creating new motive forces of social development, the progressive remaking of a country's socio-economic pattern (expansion of the public sector, implementation of a democratic land reform, subordination of the activity of foreign capital to the needs of the national economy, and so on). Great efforts are put into the re-education of people and thereby an important basis is created for more successful economic progress, a basis which it is difficult to define in ordinary economic terms. "Needless to say," L. I. Brezhnev pointed out in the Report of the CPSU Central Committee to the 24th Party Congress, "it is no easy thing to bring about a radical restructuring of backward social relations on non-capitalist principles, and in an atmosphere of unceasing attacks by the neocolonialists and domestic reactionaries. This makes it all the more important that despite all these difficulties the states taking the socialist orientation have been further advancing along their chosen path."<sup>1</sup>

The experience of industrialisation of Asian, African and Latin American countries shows that the break-up of the former socio-economic pattern and the ending of economic backwardness is an intricate and multifaceted process. Each group of countries, each country, naturally, is undertaking industrialisation in its own conditions, and in each country this process has its specific features. At the same time, as demonstrated by the experience of history, the acceleration of social and economic progress on the basis of industrialisation is possible only when it is accompanied by deep-going social changes and the triumph of new, more advanced, relations of production.

<sup>1</sup> 24th Congress of the CPSU, p. 24.